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Handling of Milk in Federal Milk Marketing Areas; Request for Public Comments on Preliminary Impact Statement on Proposed Amendments to Tentative Marketing Agreements and Orders

DEPARTMENT OF AGRICULTURE

Agricultural Marketing Service

7 CFR Parts 1001, 1002, 1004, 1006, 1007, 1011-1013, 1030, 1032, 1033, 1036, 1040, 1044, 1046, 1049, 1050, 1062, 1064, 1065, 1068, 1071, 1073, 1075, 1076, 1079, 1093, 1094, 1096-1099, 1102, 1104, 1106, 1108, 1120, 1124-1126, 1131-1139

Handling of Milk in Federal Milk Marketing Areas; Request for Public Comments on Preliminary Impact Statement on Proposed Amendments to Tentative Marketing Agreements and Orders

7 CFR Parts	Marketing areas
1001	New England.
1002	New York-New Jersey.
1004	Middle Atlantic.
1006	Upper Florida.
1007	Georgia.
1011	Tennessee Valley.
1012	Tampa Bay.
1013	Southeastern Florida.
1030	Chicago Regional.
1032	Southern Illinois.
1033	Ohio Valley.
1036	Eastern Ohio-Western Pennsylvania.
1040	Southern Michigan.
1044	Michigan Upper Peninsula.
1046	Louisville-Lexington-Evansville.
1049	Indiana.
1050	Central Illinois.
1062	St. Louis-Ozarks.
1064	Greater Kansas City.
1065	Nebraska-Western Iowa.
1068	Upper Midwest.
1071	Neosho Valley.
1073	Wichita, Kansas.
1075	Black Hills, S. Dakota.
1076	Eastern South Dakota.
1079	Iowa.
1093	Alabama-West Florida [1].
1094	New Orleans-Mississippi.
1096	Greater Louisiana.
1097	Memphis, Tenn.
1098	Nashville, Tenn.
1099	Paducah, Kentucky.
1102	Fort Smith, Ark.
1104	Red River Valley.
1106	Oklahoma Metropolitan.
1108	Central Arkansas.
1120	Lubbock-Plainview, Texas.
1124	Oregon-Washington.
1125	Puget Sound, Washington.
1126	Texas.
1131	Central Arizona.
1132	Texas Panhandle.
1133	Inland Empire.
1134	Western Colorado.
1135	Southwestern Idaho-Eastern Oregon [1].
1136	Great Basin.
1137	Eastern Colorado.
1138	Rio Grande Valley.
1139	Lake Mead.

[1] A decision on whether or not to adopt a proposed new order for this marketing area is pending before the Department.

AGENCY: Agricultural Marketing Service, USDA.

ACTION: Request for public comments on preliminary impact statement on proposed amendments to Federal milk marketing orders, and for additional proposals.

SUMMARY: Interested parties are invited to submit comments on a preliminary impact statement that has been developed by the Department of Agriculture for a proposal submitted by the Community Nutrition Institute (CNI). Also, the public is invited to submit any additional proposals that might be appropriate, considering the possible economic impacts of the CNI proposal. The preliminary impact statement presents an analysis of the potential impact of proposals to change the regulatory treatment of reconstituted milk under all Federal milk orders. The analysis was conducted by the Department to aid in the determination of whether a public hearing should be held to consider the proposals. The public is being given the opportunity to evaluate the impact statement and to provide the Department with any comments that they may wish to make regarding the statement.

DATE: Comments should be submitted by January 2, 1981.

ADDRESS: Comments (two copies) should be mailed to: Deputy Administrator, Marketing Program Operations, Agricultural Marketing Service, U.S. Department of Agriculture, Washington, D.C. 20250.

FOR FURTHER INFORMATION CONTACT: Robert F. Groene, Marketing Specialist, Dairy Division, Agricultural Marketing Service, U.S. Department of Agriculture, Washington, D.C. 20250 (telephone: 202-447-4824).

SUPPLEMENTARY INFORMATION: Prior documents in this proceeding:

Pre-Notice of hearing: issued November 13, 1979; published November 16, 1979 (44 FR 65989). Extension of time: issued January 15, 1980; published January 18, 1980 (45 FR 3593).

I. Background

The Community Nutrition Institute, a fluid milk processor, and three individual consumers have requested that a public hearing be held on proposed changes in all Federal milk marketing orders. The proposals relate to the regulatory treatment of reconstituted milk products.

Specifically, petitioners have proposed that all orders be amended to (1) remove reconstituted milk products from the definition of "other source milk" for the purpose of eliminating the "down-allocation" of milk ingredients used in such products and (2) eliminate the requirement that processors of reconstituted milk products make a "compensatory payment" on such products assigned to Class I. The thrust of the proposals is to remove reconstituted fluid milk products from the Class I pricing provisions of all Federal milk orders and in effect reclassify such products in the lowest class.

Federal milk marketing orders regulate the handling of milk in the areas they cover. They are issued by the Secretary of Agriculture in accordance with the provisions of the Agricultural Marketing Agreement Act of 1937, as amended (7 U.S.C. 601 *et seq.*.), and the applicable rules of practice and procedure governing the formulation of marketing agreements and marketing orders (7 CFR Part 900).

Each order includes provisions for a classified price plan and minimum prices that a handler must pay for milk received from producers. Handlers pay different prices for milk based on the way it is used. Usually, milk used in fluid products is placed in Class I, the highest-priced class. Many of the orders have a middle class (Class II) that includes milk used in cream, cottage cheese, yogurt, and ice cream. Milk used to produce butter, cheese, nonfat dry milk, and evaporated milk is placed in Class III, the lowest-priced class. In some markets the latter two groups of non-fluid products are included in a single, lower-priced class. Producers receive a uniform or average price based on the utilization value of milk in all classes. Presently, each order defines reconstituted milk or skim milk that is used for fluid consumption as a "fluid milk product" and includes it in Class I, the same as fluid milk products made from raw milk. This assures that all milk products used for fluid consumption are priced at least at the minimum Class I price level.

Under each order, milk producers is followed to its ultimate use by a plant and priced according to that base. If a handler obtains his entire supply of milk from producers and has only Class I sales, all of the milk is priced in Class I even if the handler first dries his producer milk before using it in reconstituted fluid milk products. However, a handler may use powder processed from producer milk in a prior month or powder from other Federal order markets or from unregulated sources. In this case, the orders assure that reconstituted skim milk made from such other source powder is priced on an equal basis with the price charged the handler making reconstituted skim milk from current receipts of producer milk.

Federal orders accomplish this by assigning reconstituted milk made from powder to the lower-valued uses of a handler. This process is commonly referred to as "down allocation." If the handler does not have sufficient Class II or Class III utilization in his plant to cover the quantity of reconstituted milk,

the remainder is assigned to Class I. In that event, the handler is required to make a "compensatory payment" with respect to the quantity assigned to Class I. The payment is equal to the difference between the order's Class I and Class III prices (or Class I and Class II prices in a two-class market) and is distributed to producers supplying the Federal order market.

In response to the hearing petition, the Department issued a pre-notice of request for hearing on November 13, 1979. Interested parties were invited to submit other proposals for changing the present regulatory treatment of reconstituted milk issue. In addition, the Department undertook an extensive analysis of the potential impact on consumers, dairy farmers, and handlers of the proposed changes in the regulatory treatment of reconstituted milk.

II. Invitation To Submit Comments

The Department's preliminary impact statement on the reconstituted milk issue is set forth at the end of this document. Prior to making a decision on whether a hearing should be held, interested parties are invited to submit any comments that they may wish to make regarding the impact statement.

Specifically, we invite comments on the analysis contained in the preliminary impact statement, and on modifications that could be made in the CNI proposal or in the marketing orders that would mitigate any adverse economic impacts of the CNI proposal. Such comments will be useful to the Department in determining whether a hearing should be held on the CNI proposal or any modified proposal.

Interested parties desiring to submit comments on the impact statement should mail two copies to: Deputy Administrator, Marketing Program Operations, Agricultural Marketing Service, U.S. Department of Agriculture, Washington, D.C. 20250. Comments should be mailed by January 2, 1981.

Signed at Washington, D.C., on November 7, 1980.

Barbara Lindemann Schlei,

Administrator,

Agricultural Marketing Service.

Preliminary Impact Statement

Title: Regulatory Treatment of Reconstituted Milk in All Federal Milk Marketing Orders

Summary

Background for Community Nutrition Institute Proposal

Federal milk marketing order regulations require handlers who buy Grade A milk from dairy farmers and distribute it in one of 47 specified market areas to pay at least minimum milk prices depending on how the milk is used. The revenue from sales for both fluid and non-fluid uses is pooled and distributed to producers.

If a handler purchases nonfat dry milk and butter ingredients for reconstitution as fluid milk, the current federal regulations effectively raise his cost for reconstituted milk above the higher fluid use price and eliminate any economic incentive to use reconstituted milk.

The CNI Proposal

The CNI proposes to eliminate reconstituted milk products from the "down allocation" and "compensatory payment" provisions of federal milk marketing orders that make its use uneconomical. The effect of the proposal would be that of reclassifying reconstituted milk in the lowest-valued class. Reconstituted milk could then be acquired at a cost equal to the manufacturing price plus the cost of processing milk into nonfat dry milk and butter and reconstituting it.

Under the CNI proposal, reconstituted milk could be sold as a 100-percent reconstituted product or it could be blended with fresh fluid milk. However, if blended, the fresh portion of the blended product would continue to be priced at the higher fluid use price. The proposal was limited to reconstituted milk made from nonfat dry milk and butterfat.

The Analysis

Estimates of milk production, consumption, prices, consumer costs and farm cash receipts were made for each of nine regions of the U.S. assuming the federal orders were amended as CNI proposed.

An economic model of the milk industry was used, based on actual production and consumption estimates for 1978. The impacts of the proposal were estimated on the basis of comparisons between the market circumstances that existed in 1978 and those derived from the model under conditions associated with the CNI proposal.

Impacts of the CNI Proposal

CNI does not propose to change Class I prices for fresh fluid milk. However, the reclassification of reconstituted milk would result in a price advantage for reconstituted milk compared to fresh fluid milk in eight of the nine regions. The fresh fluid milk price would be based on the Class I price while the price for reconstituted milk would be based on the cost of the reconstituted ingredients and, if blended, the cost of fresh fluid milk.

Because of its price advantage, reconstituted milk would compete favorably with fresh fluid milk in every region except the Southeast. Given the assumptions of the analysis, the CNI proposal implies that up to 21.6 billion pounds of reconstituted milk would be sold on an annual basis within 36 months following adoption of the CNI proposal. Reconstituted milk would account for up to 38 percent of fluid milk consumption.

Most sales of reconstituted milk would displace sales of locally produced fresh fluid milk. Local milk displaced from fresh fluid sale would be sold for manufacturing at the manufacturing milk price. As a result, the supply of locally produced manufacturing milk in all orders would be adequate to avoid the need to ship in nonfat powder for reconstituted milk.

Impacts of blended reconstituted milk after three years.

Region	Price per cwt: Fluid milk	Price per cwt: All milk	Milk production	Fluid milk consumption	Cash farm receipts
	percent				
Northeast	-6.2	-6.6	-1.46	1.04	-7.31
Corn Belt	-2.2	-3.2	-0.25	0.37	-3.23
Lake States	-1.3	-1.2	-0.10	0.18	-0.76
Southeast	-8.1	-12.6	-1.77	1.98	-13.56
South Central	-3.9	-6.1	-0.86	0.85	-6.45
Plains	-1.9	-1.6	-0.06	0.39	-1.73
Mountain	-2.3	-3.9	-0.70	0.37	-4.23
Southwest	0	0	0	0	0
Northwest	-1.4	-1.9	-0.71	0.27	-1.99
United States	-4.1	-3.9	-0.64	0.75	-4.09

Savings and costs associated with the CNI proposal (blended option after three years) are shown below:

	Million dollars
Changes in annual:	
Consumer expenditures	−186
Government purchases	−165
Cash farm receipts from milk	−520

Under the assumptions of the analysis, the reduction in cash farm receipts would exceed the saving to consumers because the price consumers would pay for reconstituted milk would include the cost of drying and reconstitution. The reduction in farm cash receipts would reflect the displacement of locally produced milk from fresh fluid use to manufacturing use, and the difference between the Class I price and the manufacturing price. As a result, the per unit reduction in consumer cost would be smaller than the reduction in per unit farm receipts.

The increased total fluid milk sales resulting from the price decrease would not offset the loss in farm receipts from reduced fresh fluid sales.

The drying and reconstitution of fluid milk is a relatively costly process. It can be economical to use reconstituted milk if long distance hauling of fresh fluid milk is avoided or if very high production costs are avoided. However, diversion of locally produced fresh fluid milk into manufacturing uses solely to permit it to be reclassified and sold locally at a lower price increases production costs with no increase in product value. It is therefore an inefficient way to reduce consumer expenditures.

In addition to the impact of the CNI proposal, the impact analysis examines several possible modifications of that proposal, as well as a proposal made by six Wisconsin handlers. The details of these analyses are presented in the impact analysis.

Preliminary Impact Statement

1. Title

Regulatory Treatment of Reconstituted Milk in All Federal Milk Marketing Orders

2. Nature of Proposed Action and Groups Impacted

The Community Nutrition Institute (CNI), a fluid milk processor, and three individual consumers have requested that a public hearing be held on proposed changes to the regulatory treatment of reconstituted milk under all federal milk marketing orders.[1]

During the prehearing period when comments and alternatives were solicited on the CNI proposal, six Wisconsin handlers submitted an alternative proposal to lower Class I differentials.[2]

The Secretary must decide whether or not a hearing should be held. If a hearing is called, he must decide from the evidence if, and how, the regulatory treatment of reconstituted milk in the federal milk marketing orders should be changed.

The Agricultural Marketing Agreement Act of 1937, as amended, provides authority for establishing federal milk marketing orders and for amending such orders. The Act's declaration of policy sets forth the objective of establishing and maintaining orderly marketing conditions for agricultural products in interstate commerce as will provide an orderly flow of the supply thereof to market to avoid unreasonable fluctuations in supplies and prices.

The Agricultural Marketing Agreement Act, the Administrative Procedure Act, and the Department's rules set forth the procedures for establishing or amending orders. The Act provides that whenever the Secretary has reason to believe the issuance of an order (or its amendment) will tend to accomplish the objectives of the Act, then he shall give notice of a hearing on the proposal. From the time of announcing a hearing until the final decision is rendered, the federal officials within the decision channel are restricted from "ex Parte" communications. At formal hearings, evidence is introduced. On the basis of the evidence and briefs submitted by interested persons, a recommendation is made as to whether the proposal should be adopted. Additional time is allowed for filing exceptions. Then, a final decision is issued by the Secretary. If it is decided that no order or amendments should be adopted, then the proceeding is terminated.

If the final decision is that a new or amended order should be made effective, a referendum is conducted among producers in the affected federal order market. Farmer cooperatives have authority to bloc-vote for all of their producer members. If at least two-thirds (three-fourths in certain cases) of the producers voting in a market affirm the proposed new order or amended order, then the order is issued. If, however, the referendum on an amended order fails, the order is terminated.

Although the regulations apply to handlers, the primary impact of the reconstituted milk regulations also falls on the dairy producers and fluid milk consumers in the federal milk order areas. Secondary impacts are on dairy producers outside those areas and consumers of manufactured milk products throughout the country.

3. Background Situation and Need for Action

The Federal Milk Order Program—On January 1, 1980, there were 47 federal milk marketing orders in the United States. Through these milk marketing orders, the federal government directly regulates the handling and pricing of about 65 percent of all U.S. produced milk and about 80 percent of all U.S. Grade A milk. Much of the remaining Grade A milk not regulated by federal orders is priced under State regulations. Grade B milk (manufacturing grade—about 17 percent of total U.S. production) is produced under less stringent farm sanitation standards than Grade A milk and, under present State health regulations, cannot be sold for drinking purposes. Grade B milk is not regulated under federal orders. About half of the Grade B milk in the United States is produced in Minnesota and Wisconsin.

Federal orders require handlers who buy Grade A milk from dairy farmers or their cooperative associations and who distribute it in the specified market order area to pay at least minimum milk prices depending on how the milk is used. If the milk is used in hard manufactured products such as cheese, butter, dry whole milk, and nonfat dry milk, a handler pays the lowest price (Class III price in most orders). The Class III price is set equal to the average price that manufacturing plants pay per 100 pounds of Grade B milk (f.o.b. plants) in the Minnesota-Wisconsin area

[1] Petition for rulemaking before the U.S. Department of Agriculture, Washington, D.C., by the Community Nutrition Institute, Zy Weinberg, Deborah Harrell, Dr. Ralph Desmarais, and Joseph Oberweis, Petitioners, 1146–19th Street, N.W., Washington, D.C., 20036, August 23, 1979.

[2] Richard J. Lamers, Lamers Dairy Inc., Kimberly, Wisconsin; Wayne Williams, Birdseye Dairy, Inc., Green Bay, Wisconsin; Russel Stoer, Stoer Dairy, Two Rivers, Wisconsin; Howard Hansen, Hansen's Dairy, Green Bay, Wisconsin; Harlan Kirchner, Crystal Fountain Dairy, Inc., Clintonville, Wisconsin; and Marvin Neilsen, Gustafson Ice Cream and Dairy Co., Rice Lake, Wisconsin. Submitted to William T. Manley, Deputy Administrator, AMS, USDA, January 14, 1980.

(usually referred to as the M–W price).[3] This price is essentially the same in all federal orders across the United States. Manufacturing grade milk prices are supported under a separate program.

The minimum price charged handlers for milk used in fluid milk products is different in each federal order and is determined each month by adding a designated amount (Class I differential) to the M–W price for the second preceding month. Although different in each federal order, the Class I differentials are related to each other in many orders. In federal orders east of the Rocky Mountains, the minimum Class I price per 100 pounds of milk is approximately the M–W price plus 90 cents plus 15 cents per 100 hundred miles the specific order area is located from Eau Claire, Wisconsin. For example, the minimum Class I price in the southeastern Florida market order is set $3.15 above the M–W price, i.e., 90 cents plus $2.25 for the approximately 1,500 miles the order is from Eau Claire. The minimum Class I prices set in some orders located in the far west are less than those calculated with this formula. Under federal orders, all handler payments for regulated milk used in different classes are pooled, and farmers are paid on the basis of an average value of milk in all uses (blend prices).

Reconstituted milk, which may be made by recombining nonfat dry milk, milk fat, and water, is subject to regulation by federal orders (reconstituted and recombined milk are used interchangeably in this impact statement). When processed for drinking purposes, reconstituted milk is classified as Class I milk as are other milk products processed for fluid consumption.

The allocation provisions of milk orders require complete allocation of reconstituted milk made from purchased powder to a handler's Class III use to the extent that a handler has Class III use. If a handler has insufficient Class III use (or Class II use) to which such reconstituted milk can be allocated, it must be allocated to Class I use. For such reconstituted milk allocated to Class I use, a handler is charged a compensatory payment. The payment is computed as the difference between the order Class I and Class III prices.

This treatment of such reconstituted milk under Federal orders is a part of the overall means by which "other source" milk that comes into a market is regulated. Regulated handlers may receive milk not only from producers but from other sources, as well, such as bulk milk or powder from other Federal order markets or from unregulated plants. This procedure is established to allocate each handler's receipts from the various sources to his utilization of milk in order to determine how much producer milk is to be priced in each class.

Proposals Being Considered—The CNI proposal would remove reconstituted milk from the Class I pricing provisions of all Federal milk orders. Based on the specific order changes proposed by CNI, the effect of the proposal would be that of reclassifying reconstituted fluid milk products in the lowest class.[4] However, if handlers blend reconstituted milk with fresh fluid milk, the change in pricing under the proposal would apply only to the reconstituted portion, while the fresh part of the blended product would continue to be priced as Class I milk.

The Community Nutrition Institute, et al. petition states that existing milk order regulations of reconstituted milk:

(1) Eliminate from commerce an equally nutritious, but lower cost, alternative to fluid milk, thus aggravating the effects of food price inflation, especially for the poor, by adding millions of dollars to the nation's annual food bill,

(2) Are unnecessary to protect milk producers,

(3) Are contrary to the Agricultural Marketing Agreement Act policy to protect against unreasonable fluctuations in supplies and prices,

(4) Create a barrier to the marketing of nonfat dry milk and are in violation of Section 8c of the Agricultural Marketing Agreement Act, and

(5) Extend beyond the authority of the Secretary to regulate the price of milk substitutes.

During the prehearing comment period on the CNI petition, six Wisconsin handlers proposed that if a hearing were called on reconstituted milk that Class I differentials in all federal milk orders be reduced by $.81 per hundredweight. In support of the proposal, petitioners stated that consumers presently buy "powdered milk" and mix it with whole milk and water as a lower cost alternative to fresh milk. In petitioners' view, this practice is detrimental to milk producers in that it hinders the sale of fresh milk, particularly in areas where there are readily availale supplies of fresh Grade A milk. From this, petitioners concluded that Class I prices are established at artifically high levels that impose artifically high costs on consumers of fresh milk.

They make the following points:

(1) Present Class I price levels are inflationary, cause consumer rebellion, are detrimental to the producers whom orders and the Act (Agricultural Marketing Agreement Act of 1937) are supposed to protect.

(2) The purpose of the Class I differential is to attract Grade A milk for fluid use and that the difference in cost of producing Grade A versus Grade B milk is very little if anything at all because the requirements for manufacturing grade milk have increased to the point where cost requirements are virtually no different.

(3) The Agricultural Marketing Agreement Act does not authorize the Secretary to provide pool qualifying percentages in order to force milk to be sold to the fluid market. Petitioners state that the marketwide pool contradicts and defeats the purpose of the Class I differential when it can be used for attracting milk for manufacturing use. The net result, they continue, is that the Class I prices have been forced artifically high for the purpose of subsidizing a Class II manufacturing market.

(4) The Only way a Class I differential can truly be effective to attract milk for fluid use is on an individual handler basis.

(5) If Class I differentials are reduced by $.81 and the resulting farm prices are insufficient to provide adequate producer income, then producer income should be bolstered by the price support system.

(6) The Secretary has exceeded his authority in establishing the class differentials presently being used under the federal order milk marketing system as is evidenced by the language in the provision of the law.

(7) The Secretary has not adjusted the price levels to those feasible in view of the current consumptive demand in domestic markets. Federal order statistics show a nationwide surplus of Grade A milk available for fluid use of approximately 70 percent.

(8) The reduction in the Class I differential will also negate the incentive to use powdered milk as a fresh milk substitute.

4. Analysis and Special Analytical Problems

The purpose of this analysis is to identify and, to the extent possible, to

[3] In most federal orders, the price charged handlers for milk used in soft manufactured products such as fluid cream products, cottage cheese, ice cream, and frozen desserts (Class II products in most orders) is set 10 cents above the Class III price.

[4] The CNI proposal would change the orders by (1) removing reconstituted milk products from the definition of "other source milk" for the purpose of eliminating the "down allocation" of milk ingredients used in such products and (2) eliminating the requirement that processors of reconstituted milk products make a "compensatory payment" on such products assigned to Class I use.

measure the economic impacts of the CNI proposal and the Wisconsin handlers; proposal. In addition, the analysis describes impacts of other changes that logically could be proposed in connection with consideration of the issue of reclassification of reconstituted milk.

Three basic alternatives are considered:

a. Current policy continued without change in each order.

b. The CNI proposal.

Eliminate the "down allocation" and "compensatory payments" now required when handlers use milk reconstituted for fluid use, thereby in effect reclassifying the product in a lower price class. Any fresh milk blended with reconstituted milk would continue to be priced at the Class I price. Only products made from nonfat dry milk and butterfate would be reclassified.

c. The Wiconsin Handlers' proposal.

This proposal called for an 81-cent reduction of Class I differentials.

The excepted impacts of these proposals would vary on the basis of the product sold, its price, prices of competing products, and actions that could be taken by the government to partially offset anticipated impacts on producers' cash receipts. The CNI proposal and the Wisconsin handlers' proposal were first evaluated assuming that the Class I differentials now set under market orders are left unchanged, and alternatively, with Class I differentials changed to permit fresh fluid milk to compete with reconstituted milk wherever reconstituted milk would otherwise be expected to capture a significant share of the market.

Similarly, in cases where the reclassification of reconstituted milk would be expected to have a significant impact on prices and incomes, alternative evaluations were made with the price support level unchanged, and with price support levels increased as necessary to hold the average U.S. all milk wholesale price received by farmers unchanged.

The study relies on a nine-region model of the U.S. milk industry to estimate changes in production, consumption, prices, expenditures and returns by regions. Actual industry conditions in 1978 are the basis for comparison.

While the model does make it possible to estimate a broad range of economic impacts, others cannot be measured because no data are available. The most important of these is the acceptability of reconstituted milk by consumers and the extent to which such a product would be sold in each of the fresh milk markets across the U.S.

(a) Product Acceptance. Reconstituted milk, recombined and packaged at central plants, has not been generally available for sale in the U.S. As a result, the extent to which such a product would compete with fresh fluid milk cannot be measured empirically. However, the best evidence available indicates that a blended product containing 50 to 70 percent reconstituted milk is nearly indistinguished from fresh fluid milk, either by taste or by chemical analysis.

Because reconstituted milk consists entirely of whole-milk derivatives, it is no different nutritionally from fresh fluid milk.

According to food technologies, most laboratory procedures cannot determine whether fluid milk is reconstituted or fresh as long as low-heat nonfat dry milk is used as an ingredient.[5] In 1967, the University of Illinois found that "Beverage milk of acceptable quality can be prepared from sterilized cream, low heat powder of good quality, and potable water." The report indicated "Furthermore, slight strong flavors in the sterilized cream were not detected in such reconstituted milk by an experienced judging panel here at the University of Illinois."[6]

As pasteurizing temperatures have increased, consumers have adjusted to a cooked flavor in fresh milk which makes it harder to distinguish any cooked flavor in reconstituted milk.[7]

Recombined milk is sold in Alaska as a 100 percent reconstituted product. Regulations there prohibit blending reconstituted and fresh milk. A major dairy in Anchorage makes and sells this product under the label "North Star Flavor Fresh Homogenized Recombined Milk." It sells at about the same price as prepackaged fresh milk shipped from the continental U.S., but about 15 to 20 cents per half gallon less than Alaskan produced fresh milk sold by that dairy's competitiors.

In one instance in 1973, a North Carolina dairy began reconstituting skim milk from nonfat milk powder and water, and blending this reconstituted milk with fresh whole milk with 3.8 butterfat to make lowfat fluid milk. The product was labeled "Arcadia Reconstituted Lowfat Milk." It achieved some market penetration when it was priced about 10 cents per gallon below fresh fluid milk prices in that market.

This product was fortified and contained 9.5 percent nonfat solids, compared with about 8.6 percent nonfat solids in fresh fluid milk generally sold in that market.

The handler, Arcadia Dairy, was repeatedly challenged by the North Carolina Milk Commission which initially tried to required the product to be priced at Class I prices, but later reduced the price of milk used in lowfat products by $1 per hundredweight so that fresh fluid lowfat milk generally could be sold at about the same price.

The litigation received considerable attention at the time, and the publicity may have increased the public's awareness of the product and its willingness to buy and consume it. The dairy manager reported that the reconstituted product was readily accepted and sold well. This spring (April 1980) Arcadia Dairy merged with a dairy cooperative and their sale of reconstituted milk was discontinued.

Based on the limited evidence in these observations, the following assumptions are used for this analysis:

1. When consumers can choose between two products, one consisting entirely of fresh fluid milk and the other either partly or entirely reconstituted, and when the prices of the two products are identical, they will choose to consume fresh fluid milk.

2. Products partly or entirely made from reconstituted milk will be required by the states to be so labeled.

3. A blended product containing fresh fluid milk and less than 70 percent reconstituted milk is nearly indistinguishable in taste from fresh fluid milk.

4. Consumer acceptance and sale of reconstituted milk would depend on its price advantage over fresh fluid milk. In markets where a significant price advantage persists, the market penetration of reconstituted milk would reach a maximum level after 36 months. The assumed maximum penetration would be related to the 1978 calculated price advantage.

Because the CNI proposal implies that Class I prices are not changed regardless of the market penetration of reconstituted milk, there is a persistent incentive for additional market penetration by reconstituted milk in markets where it has a significant price advantage. Even so, it is unreasonable to expect that fresh fluid milk would lose some markets entirely to reconstituted milk. As a result, constraints on market penetration were imposed on the model.

[5] Interview with Manager of Arden Farms, Anchorage, Alaska; Manager of Arcadia Dairy, Arden, North Carolina; and food technologists at the University of Minnesota.

[6] E. O. Herreid and H. K. Wilson, *Milk Fortification and Reconstitution with Solids-Not-Fat*, paper to the Ninth Ag. Industries Forum, University of Illinois, February 1967, p. 27.

[7] Interview with Vernal Packard, Food Science, University of Minnesota.

(b) Timing of Impacts. This analysis draws no direct conclusions regarding the timing of the impacts it attempts to characterize. Rather, it depends on a "comparative statics" technique which measures and compares economic factors after a policy change. The extent to which adjustments and impacts so measured are "partial" or "complete" depends on the coefficients of adjustment used in each case.

If reconstituted milk were to be offered for sale generally, it would be a new product to most consumers. Consumer acceptance of new products is not instantaneous regardless of how attractive the product price may be. It depends on many things including the information that consumers have. At least part of that information comes from advertising. This analysis does not include the likelihood of retailers or others advertising or attempting to increase their market share through other marketing techniques, or of the likelihood or effectiveness of possible advertising by competing products. Because we cannot estimate the timing of various levels of potential impacts the following additional assumptions were made:

1. Some impact would be felt within six months after introduction. In this analysis, these impacts were measured using "short term" coefficients of supply and demand.

2. After 18 months, additional impacts would be felt. These were measured using longer-term supply and demand coefficients. It is assumed that about one half of the long-term impact on supply will be completed by 18 months, but that the major impact on demand will be realized by 18 months.

3. The major impacts of the introduction of reconstituted milk products at the prices specified on both supply and demand would occur within 36 months after introduction.

(c) State Laws Concerning Reconstituted Milk. In seven states, producing and/or selling reconstituted milk is against the law (Alabama, Idaho, Massachusetts, New Hampshire, South Carolina, Tennessee, and West Virginia). In 1977, every state but South Dakota had some form of regulation that applied to reconstituted milk. In most states, there are specific labeling requirements. In others, some reconstituted products are prohibited, but not others. Table 1 shows the types of special regulations by state.

BILLING CODE 3410-02-M

Table 1. State regulations applied to reconstituted fluid milk products, 1977*

State	Direct state prohibition on recombined milk	Grade A ordinance prohibition on recombined milk	State regulation of prices for recombined milk	Recombined milk product currently being offered for sale in state other than cultured buttermilk	Specific labeling requirements for recombined milk
Alabama	Yes+	No	N/A	No	N/A
Alaska	No	No	No	Yes	Yes
Arkansas	No	No	No	No	Yes
Arizona	No	No	No	No	Yes
California	No	No	Yes	No	Yes
Colorado	No	Yes	N/A	No	N/A
Connecticut	N/R	Yes	N/A	N/A	N/A
Delaware	No	No	No	N/R	Yes
Florida	No	Yes	No	No	Yes
Georgia	No	Yes§	N/A	No	N/A
Hawaii	No	No	No	Yes	Yes
Idaho	Yes	No	N/A	No	N/A
Illinois	No	No	No	No	Yes
Indiana	No	No	No	No	Yes
Iowa	No	No	No	No	Yes
Kansas	No	No	No	N/R	Yes
Kentucky	No	No	No	No	Yes
Louisiana	No	Yes	N/A	No	N/A
Maine	No	No	No	No	Yes
Maryland	No	No	No	No	Yes
Massachusetts	Yes	No	No	No	N/A
Michigan	No	No	No	No	Yes
Minnesota	No	No	No	No	Yes
Mississippi	No	No	No	No	Yes
Missouri	No	No	No	Yes	Yes
Montana	No	No	Yes	No	Yes
Nebraska	No	No	No	N/R	Yes
Nevada	No	Yes	No	No	N/A
New Hampshire	Yes	No	No	No	N/A
New Jersey	No	No	Yes	Yes	Yes
New Mexico	No	No	No	N/R	Yes
New York	No	No‡	Yes	Yes	Yes
North Carolina	No	No	Yes	Yes	Yes
North Dakota	No	No	Yes	N/R	Yes
Ohio	No	No	No	No	Yes
Oklahoma	No	No	No	Yes‖	No
Oregon	No	No	Yes	No	Yes
Pennsylvania	No	No	Yes	N/R	Yes
Rhode Island	No	Yes	No	No	N/A
South Carolina	Yes+	Yes	Yes	Yes§	Yes
South Dakota	No	No	No	No	No
Tennessee	Yes§	No	No	No	No
Texas	No	No	No	No	Yes
Utah	No	No	No	No	Yes
Vermont	No	Yes	N/R	No	N/A
Washington	No	No	No	No	Yes
Virginia	No	No	Yes	Yes	Yes
West Virginia	Yes	Yes	No	No	N/A
Wisconsin	No	No	No	Yes**	Yes
Wyoming	No	No	Yes	No	Yes
Puerto Rico	No	No	No	Yes	No
Totals:					
Yes	7	9	11	11	35
No, not applicable, or no response	44	42	40	40	16

*Tabulations are based on responses from individuals in state departments of agriculture, milk control agencies, or health departments. Some indicated that as they had little or no experience with the product, they were somewhat unsure on how their regulations would apply.

+Except cultured buttermilk.

‡Fluid milk (3.25 percent fat and 8.75 percent solids not fat) cannot be modified in any manner. All other fat content milk products can be recombined.

§May be set aside in the event of a milk shortage.

‖A small number of processors are using nonfat powder to extend whole milk supplies to produce lower fat (2 percent) milk.

**Some processors are marketing a recombined chocolate milk drink.

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Because it is not possible to measure the potential impact of state regulation on the alternative proposals, this analysis relies upon a national milk production, consumption, and transportation model to measure impacts that would be expected in the absence of state regulations to prevent the sale of reconstituted milk.

If the federal orders were amended to reclassify reconstituted milk, we would expect increased efforts by some groups to prohibit or restrict the sale of such products. However, other groups would be expected to counter those efforts by attempts to reduce restrictions that now exists. Because the likelihood of success of such efforts is impossible to predict or measure, no estimates of their impacts are presented.

(d) *Methodology.* The impacts of each option were estimated with the assistance of a nine-region dairy industry model. The nine regions used are shown in figure 1. Details of the model are reported in "A Framework for Evaluating the Economic Impact of Classified Pricing of Milk," Staff Paper P77–24, Department of Agricultural and Applied Economics, University of Minnesota, November 1977.

Fluid milk prices are those prevailing in 1978 and include the over-order payments. The analysis assumes that any adjustment in minimum Class I differentials set under federal orders would result in the same change in the prevailing Class I price. Both over-order payments and farm to retail margins are held constant.

The elasticities used in calculating the impacts are summarized in table 2.

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Table 2. Fluid demand and supply elasticity assumptions used in analysis*

Region	Fluid demand			Supply		
	6 months	18 months	3 years	6 months	18 months	3 years
	Coefficients of elasticity					
Northeast	-.028	-.168	-.168	.017	.079	.22
Corn Belt	-.028	-.168	-.168	.006	.029	.08
Lake States	-.021	-.123	-.123	.006	.029	.08
Southeast	-.041	-.244	-.244	.01	.05	.14
South Central	-.036	-.216	-.216	.01	.05	.14
Plains	-.033	-.197	-.197	.002	.01	.03
Mountain	-.029	-.173	-.173	.013	.064	.18
Southwest	-.026	-.158	-.158	.026	.132	.37
Northwest	-.029	-.173	-.173	.026	.132	.37

* These are farm level elasticities which are approximately 1/2 of the retail elasticities. The supply coefficients used for three-year impacts are based on estimates by Jerome W. Hammond, "Regional Milk Supply Analysis," Department of Agricultural and Applied Economics Staff Paper P77-12, University of Minnesota, July 1979, p. 2. The demand elasticities were those developed and used in the publication, Alternative Pricing Policies for Class I Milk Under Federal Marketing Orders--Their Economic Impact, Economics, Statistics and Cooperatives Service, U.S. Department of Agriculture, Ag. Economics Report No. 401, May 1978, P. 55. The implied three-year adjustment supply elasticities for these coefficients range from .03 to .37 for the nine regions. The demand elasticities for fluid milk range from -.123 to -.244 and the manufacturing milk demand elasticity was -.075 for the six-month impact and -.45 for the 18- and 36-month impact.

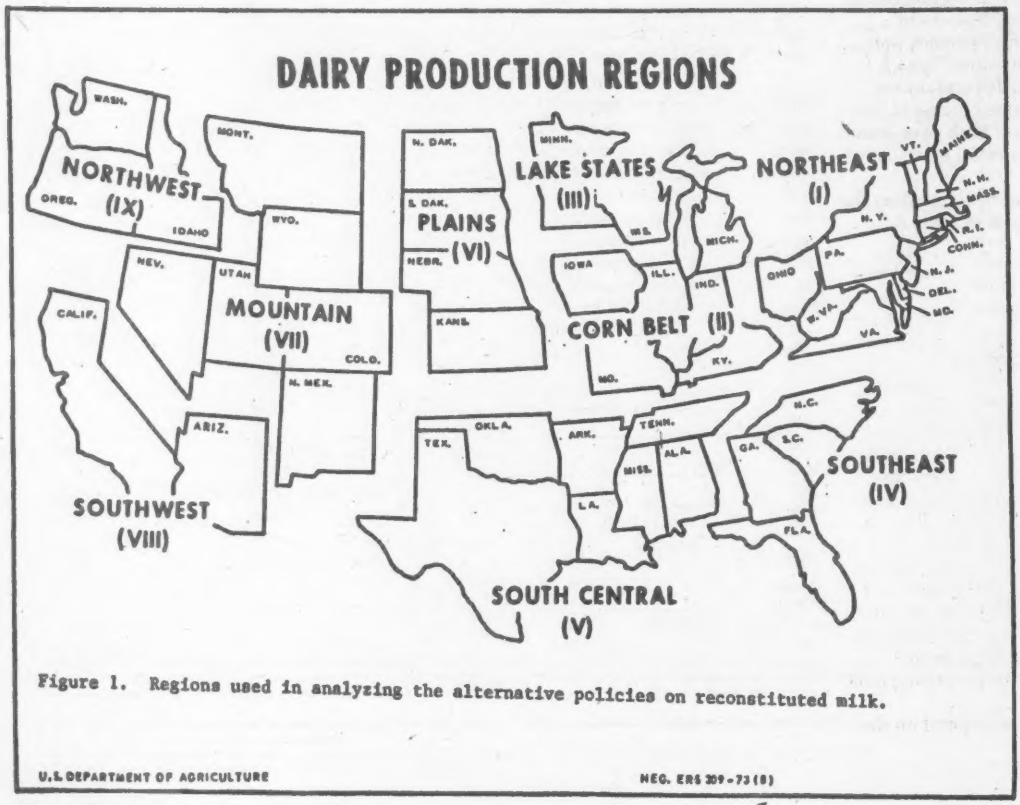

Figure 1. Regions used in analyzing the alternative policies on reconstituted milk.

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5. Options Considered

(a) *Continue Current Policy.* The present regulatory provisions of the federal orders, including the present treatment of reconstituted milk, were established on the basis of deliberations by the government in rule-making proceedings in the implementation of the classified pricing and uniform pricing requirements of the Agricultural Marketing Agreement Act.

The implications of a continuation of current policy would be expected to be found in several areas. First, the regulations of the current federal orders tend to result in an economic disincentive for development and use of some technologies to reduce the cost of fluid milk. In areas where part of the milk needed for fluid use must be hauled substantial distances, deficits tend to be supplied by fluid milk regardless of the availability of a technology that might permit savings from the shipment of butter and powder and subsequent reconstitution.

With no change in the pricing of reconstituted milk, handlers in most areas would continue to have a strong disincentive to use reconstituted milk rather than fresh milk in processing fluid milk products. This would eliminate any potential savings for consumers in some areas of the country who might purchase commercially reconstituted or blended products. This also would largely remove the incentive for handlers in deficit production markets to obtain supplemental milk supplies in concentrated form, even though moving milk in concentrated form could reduce hauling costs and energy consumption.

Even so, nonfat dry milk can be purchased at retail stores and used to make "reconstituted milk." Although costs of home reconstituted milk are less than fresh fluid milk at retail, sales are small and would be expected to continue to be small, barring a change in consumer preference and response to that product. Because consumers must mix reconstituted milk (blend nonfat dry milk and water), it is not identical to commercially mixed reconstituted milk.

Over the past decade, total milk production over and above fluid consumption has been increasing most rapidly in regions with the highest cost of production. Also, investment in milk manufacturing facilities in those regions has grown more rapidly than in the regions where the cost of producing milk is lowest.

Local fluid milk prices depend on the supply and demand for milk and the milk price support level as well as the price differentials established by the federal orders. In the late 1960's, the Class I minimum prices in the fluid milk market orders were adjusted to reflect transportation costs plus a uniform differential of about 90 cents per hundredweight for Class I milk. Since then, the average spread betweeen fresh fluid milk prices (over-order premiums) and the Class I minimum prices has increased sharply, but the Class I price differential generally has not been changed. Over the same period, the price support level for milk has increased from $4.28 per hundredweight in 1968 to $13.10 in 1980. To continue the current milk price structure would be expected to continue this most recent pattern of investment in milk production and manufacturing.

The current policy has provided an ample and stable supply of high quality milk in all parts of the U.S. It has contributed to the willingness of investors to develop production and processing facilities to assure adequate supplies in the future.

Continuation of the current policy option is reflected as the baseline in each of the following analyses. As a result, these analyses do not specifically estimate the cost of this option to either consumers or taxpayers.

(b) *The CNI Proposal.* The CNI proposes to remove reconstituted milk from the Class I pricing provisions of the milk orders. The proposal would permit the sale of both a product consisting of 100-percent reconstituted milk which would be reclassified and not subject to order Class I pricing policies and a reconstituted milk product blended with fluid milk. For the blended product, the fresh milk used would be priced at the Class I price. The CNI petition is analyzed, first assuming that only a 100-percent reconstituted product would be reclassified, and then assuming that reconstituted milk used in blended products would be reclassified.

Unblended Reconstituted Milk—If reconstituted milk is not blended with fresh milk, it would be expected to be regarded by some consumers as an acceptable product, but detected and discriminated against by others. Differences in the costs of transporting fluid milk as opposed to the cost of reconstituted milk from ingredients would allow price differences in some markets up to 8 cents per half gallon (in 1978 prices). The fresh fluid milk price would be unchanged by the proposed change in the regulation and would continue to be based on the prevailing Class I price. The price for reconstituted milk would be based on the price of manufacturing milk and the cost of drying milk and reconstituting it.

Because of its price advantage, some reconstituted milk would be sold in every region except the Southwest.[8] As a result, the average U.S. fluid milk price would be reduced slightly and consumption increased slightly in each region where there are significant sales of reconstituted milk.

As described above, the degree of market penetration is assumed to depend on the price advantage over fresh milk in each market. However, the sale of reconstituted milk would not be expected to exceed 5 percent of fluid milk consumption in any market after six months, and 20 percent in any market after three years (table 3).

[8] The Southwest region is dominated by California, which regulates its own milk and is not under the federal milk order program. In California, the regulations that make reconstituted milk uneconomical to produce are imposed by the state and would not be removed by the CNI proposal.

Table 3: Price differences and maximum market penetration for unblended reconstituted milk

Item	REGION								
	NE	CB	LS	SE	SC	PL	M	SW	NW
	Cents per half gallon								
Price advantage of 100 percent reconstituted milk (1978 prices)	6.6	3.2	1.6	8.1	5.0	2.7	3.3	0	2.2
	Percent of fluid market								
Maximum market penetration of unblended product									
6 months	5	2	0	5	5	0	2	0	0
18 months	10	5	2	15	10	2	5	0	2
36 months	15	10	5	20	15	5	10	0	5

Table 4: Impacts of the CNI proposal for unblended reconstituted milk after three years*

Region	Price per cwt: Fluid milk	Price per cwt: All milk	Milk production	Fluid milk consumption	Cash farm receipts
	percent change				
Northeast	-1.8	-1.9	-0.43	0.30	-2.13
Corn Belt	-0.6	-1.0	-0.08	0.11	-0.95
Lake States	-0.2	-0.1	0	0.04	-0.07
Southeast	-2.9	-5.4	-0.75	0.71	-5.74
South Central	-1.4	-2.1	-0.30	0.31	-2.27
Plains	-0.3	-0.2	-0.02	0.08	-0.39
Mountain	-0.3	-0.9	-1.46	0.05	-0.98
Southwest	0	0	0	0	0
Northwest	-0.3	-0.3	-0.11	0.05	-0.18
United States	-1.3	-1.1	-0.22	0.23	-1.26

* For additional information on regional prices and use, see Appendix Table 1.

This analysis implies that about 6.6 billion pounds (annual rate) of unblended reconstituted milk would be sold—about 11.7 percent of fluid consumption (table 5). Fluid milk consumption would increase slightly—130 million pounds or about 0.2 percent.

Model results indicate that most sales of reconstituted milk would displace sales of locally produced fresh fluid milk. Local milk displaced from fresh fluid sale would be used locally for manufacturing and valued at the manufacturing milk price. The supply of locally produced milk would permit virtually all of the demand for reconstituted milk to be supplied locally in most orders, even after the production adjustment caused by the price reductions, with the exception of the Southeast during the short production season.

The potential impact of the CNI proposal (unblended option) would vary widely by region.

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Table 5 : Impacts of CNI proposals if unblended reconstituted milk is reclassified

Item	Region									
	NE	CB	LS	SE	SC	PL	M	SW	NW	U.S.
	Dollars per hundredweight									
Fluid milk price 1978	12.31	11.45	11.05	12.74	11.98	11.37	11.71	10.71	11.51	11.84
6 months	12.24	11.44	11.05	12.65	11.92	11.37	11.69	10.71	11.51	11.80
18 months	12.16	11.41	11.04	12.46	11.87	11.36	11.67	10.71	11.51	11.74
36 months	12.09	11.38	11.03	12.37	11.81	11.34	11.67	10.71	11.48	11.69
All milk price 1978	10.88	10.34	10.14	11.96	11.22	10.12	10.83	10.26	10.44	10.57
6 months	10.81	10.33	10.14	11.67	11.14	10.12	10.80	10.26	10.44	10.53
18 months	10.74	10.29	10.14	11.44	11.09	10.11	10.77	10.26	10.43	10.49
36 months	10.67	10.24	10.13	11.32	10.98	10.10	10.73	10.26	10.41	10.45
Mfg. milk price 1978										9.49
6 months										9.49
18 months										9.49
36 months										9.49
	Millions of pounds									
Milk production 1978	31,425	18,490	30,341	5,315	9,940	5,188	2,871	12,763	5,380	121,713
6 months	31,422	18,490	30,341	5,314	9,939	5,188	2,868	12,763	5,380	121,705
18 months	31,392	18,487	30,341	5,303	9,934	5,188	2,857	12,763	5,379	121,644
36 months	31,291	18,476	30,340	5,275	9,910	5,187	2,829	12,763	5,374	121,445
Fluid consumption 1978	19,585	10,240	2,794	4,900	7,535	1,294	1,912	6,178	1,851	56,290
6 months	19,588	10,241	2,794	4,902	7,537	1,294	1,912	6,178	1,851	56,296
18 months	19,625	10,247	2,795	4,927	7,550	1,294	1,913	6,178	1,851	56,379
36 months	19,644	10,251	2,795	4,935	7,558	1,295	1,913	6,178	1,852	56,420
Reconstituted used 1978	0	0	0	0	0	0	0	0	0	0
6 months	979	205	0	245	377	0	38	0	0	1,844
18 months	1,963	512	56	739	755	26	96	0	37	4,183
36 months	2,947	1,025	140	987	1,134	65	191	0	93	6,581
Mfg. consumption 1978										62,755
6 months										62,755
18 months										62,755
36 months										62,755
Gov't. purchases 1978										2,668
6 months										2,654
18 months										2,510
36 months										2,270
	Millions of dollars									
Cash farm receipts 1978	3,377	1,889	3,040	627	1,101	519	307	1,294	554	12,709
6 months	3,356	1,887	3,040	612	1,093	519	307	1,294	555	12,663
18 months	3,330	1,879	3,039	598	1,088	519	306	1,294	555	12,608
36 months	3,305	1,871	3,038	591	1,076	517	304	1,294	553	12,549

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The all milk price would be about 12 cents per hundredweight lower nationally—about 1.1 percent—and would range from 64 cents per hundredweight lower in the Southeast to unchanged in the Southwest. Fluid prices would be 15 cents per hundredweight lower nationally (1.3 percent). There would be relatively little impact in the Lake States, Plains and Northwest regions.

Cash farm receipts would be reduced about $160 million or about 1.3 percent after three years. In the Southeast, they would be down 5.7 percent. In the Northeast and South Central, they would be down 2.1 percent. In the Lake States and in the Southwest cash receipts would be about unchanged.

Under the assumptions of the analysis, savings would be expected in both consumer expenditures and government expenses.[9] Consumer expenditures for fluid milk products would decline about $55 million (0.5 percent) from 1978 expenditures of about $12.0 billion. Government expenditures would be reduced about $55 million or 15 percent.

Savings and costs associated with the CNI proposal (unblended option after three years) are shown below:

Changes in annual—	Million dollars
Consumer expenditures	−55
Government purchases	−55
Cash farm receipts from milk	−160

Under the assumptions of the analysis, the reduction in cash farm receipts would exceed the saving to consumers because the price consumers would pay for reconstituted milk includes the cost of drying and reconstitution. The reduction in farm cash receipts reflects the displacement from fresh fluid use to manufacturing use, and the difference in the Class I price and the manufacturing price. As a result, the per unit reduction in consumer cost would be smaller than the reduction in per unit farm receipts.

The increased total milk sales resulting from the price decrease would not offset the loss in farm receipts from reduced fresh fluid sales.

Blended Reconstituted Milk—According to the best evidence available at this time, reconstituted milk blended with at least 30 percent fresh fluid milk is a reasonably close substitute for fresh fluid milk. While it likely would be required to be labeled to indicate that it was manufactured from powder and butterfat and blended with fresh fluid milk, and would be prohibited by law in some states and restricted in others, it would be expected to achieve significant market acceptance wherever it was available at a price advantage.

The fresh fluid milk price would be based on the Class I price while the price for blended reconstituted milk would be based on three factors: the price of manufacturing milk; the cost of drying and reconstitution; and the Class I price. Blended reconstituted milk would be expected to sell at a price advantage and to compete favorably with fresh fluid milk in every region except the Southwest. Although the Class I fluid prices would not change, the sale of reconstituted milk at lower prices would slightly reduce the U.S. average fluid milk price. As a result, consumption would increase slightly in each region where there are significant sales of reconstituted milk. Most sales of reconstituted milk would displace sales of locally produced fresh fluid milk.

Local milk displaced from fresh fluid sales would be used for manufacturing and valued at the manufacturing milk price. The supply of locally produced milk would be adequate to provide virtually all of the reconstituted milk consumed.

As described above, the degree of market penetration is assumed to be constrained by the price advantage in each market. It was assumed that a 50/50 blend of reconstituted and fresh milk would not exceed 20 percent of total fluid sales in any region after six months and that a 70/30 reconstituted/fresh milk blend would not exceed 80 percent of the total fluid sales in the Southeast after 36 months under even the largest observed price advantage. The constraints assumed for other regions are shown below (table 6).

Table 6: Price difference per half gallon and maximum market penetration assumptions for blended reconstituted milk

Item	REGION								
	NE	CB	LS	SE	SC	PL	M	SW	NW
	Cents per half gallon								
Price advantage for—									
50/50 blend	3.3	1.6	0.8	4.0	2.5	1.4	1.6	0	1.1
60/40 blend	4.0	1.9	1.0	4.9	3.0	1.6	2.0	0	1.3
70/30 blend	4.6	2.2	1.1	5.7	3.5	1.9	2.3	0	1.5
	Percent of fluid market								
Maximum market penetration of blended product									
6 months									
50/50 blend	20	10	0	20	15	0	10	0	5
18 months									
60/40 blend	45	30	20	50	40	30	30	0	30
36 months									
70/30 blend	70	50	30	80	60	50	50	0	45

Given the assumptions of the analysis, the blended option implies that up to 21.6 billion pounds of blended reconstituted milk would be sold on an annual basis after 36 months following adoption of the CNI proposal. Blended reconstituted milk would account for up to 38 percent of fluid milk consumption.

[9] Retail prices for fluid milk per half gallon are calculated as:

$$\frac{P_f}{22.7} + \$0.4209$$

Where P_f is the farm level fluid milk price, 22.7 is the number of half gallons per hundredweight of milk and $0.4209 is the assumed farm-retail price margin per half gallon.

Retail price per 1/2 pound of cheese is calculated as:

$$\frac{P_m + \$10.34}{19.32}$$

Where P_m is the manufacturing milk price, $10.34 is the farm-retail margin per hundredweight of milk and 19.32 is the number of 1/2 pounds of cheese made from 100 pounds of milk.

In both cases the farm-retail margin is assumed to be constant.

Within six months of introduction, the analysis indicates that the national average fluid milk price would be 9 cents per hundredweight lower (table 7). On an annual basis, consumption of reconstituted milk would be 6.5 percent of fluid milk consumption. After three years fluid milk prices would average 49 cents per hundredweight lower nationally (4.1 percent).

This impact would vary significantly by regions. In the Southeast 56 percent of the fluid milk consumption would be reconstituted, and in the Northeast, 49 percent. In the Lake States, 21 percent of fluid milk would be reconstituted. No sales of reconstituted milk would be expected in the Southwest.

After three years, the national all-milk price received by farmers would decline as much as 3.9 percent, resulting in a 0.6 percent decline in total milk production.

The national average fluid milk price would decline 4.1 percent resulting in a 0.75 percent increase in fluid milk consumption (fresh fluid and reconstituted).

Table 8: Impacts of blended reconstituted milk after three years*

Region	Price per cwt: Fluid milk	Price per cwt: All milk	Milk production	Fluid milk consumption	Cash farm receipts
	percent				
Northeast	-6.2	-6.6	-1.46	1.04	-7.31
Corn Belt	-2.2	-3.2	-0.25	0.37	-3.23
Lake States	-1.3	-1.2	-0.10	0.18	-0.76
Southeast	-8.1	-12.6	-1.77	1.98	-13.56
South Central	-3.5	-6.1	-0.86	0.85	-6.45
Plains	-1.9	-1.7	-0.06	0.39	-1.73
Mountain	-1.5	-3.9	-0.70	0.37	-4.23
Southwest	0	0	0	0	0
Northwest	-1.4	-1.9	-0.71	0.27	-1.99
United States	-4.1	-3.9	-0.64	0.75	-4.09

* For additional information on regional prices and use, see Appendix table 2.

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Table 7--Impacts of CNI Proposal, reconstituted milk blended with fresh milk is reclassified.

Item	Region									
	NE	CB	LS	SE	SC	PL	M	SW	NW	U.S.
	Dollars per hundredweight									
Fluid milk price 1978	12.31	11.45	11.05	12.74	11.93	11.37	11.71	10.71	11.51	11.84
6 months	12.16	11.41	11.05	12.56	11.90	11.37	11.67	10.71	11.50	11.75
18 months	11.91	11.32	11.01	12.19	11.71	11.26	11.58	10.71	11.42	11.58
36 months	11.55	11.20	10.91	11.71	11.51	11.15	11.54	10.71	11.35	11.35
All milk price 1978	10.88	10.34	10.14	11.96	11.22	10.12	10.83	10.26	10.44	10.57
6 months	10.74	10.29	10.14	11.55	11.10	10.12	10.77	10.26	10.43	10.50
18 months	10.49	10.17	10.12	11.08	10.82	10.03	10.62	10.26	10.33	10.35
36 months	10.16	10.01	10.02	10.45	10.53	9.95	10.41	10.26	10.24	10.16
Mfg. milk price 1978										9.49
6 months										9.49
18 months										9.49
36 months										9.49
	Millions of pounds									
Milk production 1978	31,425	18,490	30,341	5,315	9,940	5,188	2,871	12,763	5,380	121,713
6 months	31,418	18,489	30,341	5,313	9,939	5,188	2,871	12,763	5,380	121,702
18 months	31,336	18,481	30,339	5,295	9,923	5,187	2,867	12,763	5,372	121,563
36 months	30,966	18,443	30,312	5,221	9,855	5,185	2,851	12,763	5,342	120,938
Fluid consumption 1978	19,585	10,240	2,794	4,900	7,535	1,294	1,912	6,178	1,851	56,290
6 months	19,592	10,241	2,794	4,903	7,537	1,294	1,912	6,178	1,851	56,302
18 months	19,692	10,260	2,796	4,952	7,572	1,297	1,915	6,178	1,854	56,515
36 months	19,788	10,278	2,799	4,997	7,599	1,299	1,919	6,178	1,856	56,713
Reconstituted used 1978	0	0	0	0	0	0	0	0	0	0
6 months	1,959	512	0	490	565	0	96	0	46	3,668
18 months	5,317	1,847	336	1,486	1,817	233	345	0	334	11,715
36 months	9,696	3,597	588	2,798	3,192	455	672	0	585	21,583
Mfg. consumption 1978										62,755
6 months										62,755
18 months										62,755
36 months										62,755
Gov't. purchases 1978										2,668
6 months										2,645
18 months										2,293
36 months										1,470
	Millions of dollars									
Cash farm receipts 1978	3,377	1,889	3,040	627	1,101	519	307	1,294	554	12,709
6 months	3,332	1,879	3,040	606	1,090	519	306	1,294	554	12,620
18 months	3,252	1,859	3,033	580	1,062	514	301	1,294	548	12,443
36 months	3,130	1,828	3,017	542	1,030	510	294	1,294	543	12,189

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After three years, milk production would be down 775 million pounds nationally while fluid milk constumption would be up 423 million pounds. Cash receipts by farmers would be down 4.1 percent.

Cash farm receipts for milk would be less than under current regulations for the U.S. total, and for all regions except the Southwest where they would not be materially affected. In the Northeast, the reduction would be 7.3 percent and in the Southeast, 13.6 percent.

Under the assumptions of the analysis, savings would be expected in both consumer costs and government expenses. Consumers would save about $186 million (1.5 percent) from 1978 fluid milk expenditures of about $12.0 billion. Government expenditures would be reduced about $165 million and cash farm receipts $520 million.

Savings and costs associated with the CNI proposal (blended option after three years) are shown below:

Changes in annual—	Million dollars
Consumer expenditures	−186
Government purchases	−165
Cash farm receipts from milk	−520

Under the assumptions of the analysis, the reduction in cash farm receipts would exceed the saving to consumers because the price consumers would pay for reconstituted milk would include the cost of drying and reconstitution. The reduction in farm cash receipts reflects the displacement from fresh fluid use to manufacturing use, and the difference in the Class I price and the manufacturing price.

The increased total milk sales resulting from the price decrease would not be expected to offset the loss in farm receipts from reduced fresh fluid sales.

Maintaining Cash Receipts from Sale of Dairy Products Under Blended Option—The potential decline in the average U.S. all-milk price due to the CNI proposal to change the federal orders could be offset by increasing the support price 7 cents per hundredweight after six months, 22 cents after 18 months and 41 cents after 36 months (table 9).[10] Although increasing the support price would leave the average U.S. all milk wholesale price unchanged, the impact on farm cash receipts would be different in each region.

[10] Options that involve changes in the support price are presented to illustrate the impact on savings and costs. However, any change in the support level would have to meet the criteria of the Agricultural Act of 1949, as amended.

Savings and costs associated with the modified CNI proposal (blended option with price supports increased after three years) are shown below:

Change in annual—	Million dollars
Consumer expenditures	−28
Government purchases	+161
Farm cash receipts from milk	−7

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Table 9--Impacts of CNI proposal, reconstituted milk blended with fresh milk is reclassified and support price is increased

Item	Region									
	NE	CB	LS	SE	SC	PL	M	SW	NW	U.S.
	Dollars per hundredweight									
Fluid milk price 1978	12.31	11.45	11.05	12.74	11.98	11.37	11.71	10.71	11.51	11.84
6 months	12.23	11.48	11.12	12.63	11.97	11.44	11.74	10.78	11.57	11.82
18 months	12.13	11.54	11.23	12.41	11.93	11.48	11.80	10.93	11.64	11.80
36 months	11.96	11.61	11.32	12.12	11.92	11.56	11.85	11.12	11.76	11.76
All milk price 1978	10.88	10.34	10.14	11.96	11.22	10.12	10.83	10.26	10.44	10.57
6 months	10.81	10.35	10.14	11.62	11.16	10.19	10.84	10.33	10.50	10.57
18 months	10.71	10.36	10.34	11.30	11.04	10.25	10.83	10.48	10.54	10.57
36 months	10.56	10.37	10.48	10.87	10.94	10.35	10.80	10.65	10.63	10.57
Mfg. milk price 1978										9.49
6 months										9.56
18 months										9.71
36 months										9.90
	Millions of pounds									
Milk production 1978	31,425	18,490	30,341	5,315	9,940	5,188	2,871	12,763	5,380	121,713
6 months	31,421	18,490	30,341	5,314	9,939	5,188	2,871	12,765	5,381	121,710
18 months	31,387	18,491	30,358	5,300	9,932	5,189	2,871	12,798	5,387	121,713
36 months	31,222	18,494	30,422	5,247	9,905	5,192	2,869	12,944	5,417	121,712
Fluid consumption 1978	19,585	10,240	2,794	4,900	7,535	1,294	1,912	6,178	1,851	56,290
6 months	19,588	10,240	2,794	4,902	7,535	1,294	1,912	6,177	1,851	56,293
18 months	19,633	10,227	2,789	4,931	7,542	1,292	1,909	6,158	1,847	56,328
36 months	19,678	10,216	2,786	4,959	7,543	1,290	1,908	6,140	1,844	56,365
Reconstituted used 1978	0	0	0	0	0	0	0	0	0	0
6 months	1,959	512	0	490	565	0	96	0	46	3,668
18 months	5,310	1,841	335	1,479	1,810	233	343	0	332	11,683
36 months	9,642	3,576	586	2,777	3,042	451	668	0	581	21,323
Mfg. consumption 1978										62,755
6 months										62,730
18 months										62,100
36 months										61,535
Gov't. purchases 1978										2,668
6 months										2,697
18 months										3,285
36 months										3,812
	Millions of dollars									
Cash farm receipts	3,377	1,889	3,040	627	1,101	519	307	1,294	554	12,709
6 months	3,355	1,891	3,040	609	1,095	522	307	1,303	558	12,681
18 months	3,320	1,893	3,101	591	1,083	526	307	1,325	561	12,707
36 months	3,257	1,895	3,150	563	1,070	531	306	1,362	569	12,702

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The savings by consumers are smaller than those implied by the CNI proposal because of the increase in milk prices that stems from the higher support level. Most of the $520 million reduction in farm cash receipts is avoided. Government costs increase by $181 million—$236 million more than under the unmodified CNI proposal.

Table 10: Impacts of the CNI proposal for blended reconstituted milk (with higher supports) after three years*

Region	Price per cwt: Fluid milk	Price per cwt: All milk	Milk production	Fluid milk consumption	Cash farm receipts
	percent				
Northeast	-2.8	-2.9	-0.65	0.47	-3.55
Corn Belt	1.4	0.3	0.02	-0.23	0.32
Lake States	2.4	3.4	0.27	-0.29	3.62
Southeast	-4.9	-9.1	-1.28	1.20	-10.21
South Central	-0.5	-2.5	-0.35	0.11	-2.82
Plains	1.7	2.3	0.08	-0.31	2.31
Mountain	1.2	-0.3	-0.07	-0.21	-0.33
Southwest	3.8	3.8	1.42	-0.62	5.26
Northwest	2.2	1.8	0.69	-0.38	2.71
United States	-0.7	0	0	0.13	0.06

* For additional information on regional prices and use, see Appendix table 3.

The increase in price support levels reduces the impacts of the CNI proposal on cash farm receipts in those regions where the greateest reductions are estimated—the Southeast, Northeast, and South Central. However, reductions in cash receipts would still be expected in those regions. And, in the Southwest, where no reconstituted milk would be sold, the increase in receipts would be the greatest.

Reconstituting Milk Solely to Have It Reclassified—Because the CNI proposal implies a significant economic advantage for reconstituted milk in eight of the nine regions, as much as 21.6 billion pounds of milk would be dried and then reconstituted annually.

Most of this milk would be reconstituted solely to circumvent regulation.

The drying and reconstitution of fluid milk is a relatively costly process. It can be economical to use reconstituted milk if long distance hauling of fresh fluid milk is avoided or if very high production costs are avoided. However, diversion of locally produced fresh fluid milk into manufacturing uses solely to permit it to be reclassified and sold locally at a lower price is an uneconomic process because it increases production costs with no increase in produce value. It is therefore an inefficient way to reduce consumer expenditures.

To use an example from the Southeast Region, fresh fluid milk sold for about $12.74 per hundredweight in 1978. However, milk reconstituted from shipped-in ingredients could have been sold at $10.76. Surplus local milk displaced by the reconstituted milk, would be sold for manufacturing for $9.49 per cwt. and could have been purchased for that price plus the cost of making nonfat dry milk and butter ($1.15 cents per cwt)—about $10.64. Thus, milk dried locally would compete favorably with nonfat dry milk and butter transported from other regions because there would be less transportation cost.

It would appear that the only way to avoid the uneconomic reconstituting of milk, given the persistent price advantage implied by the CNI proposal, would be to permit the Class I prices to adjust to competitive levels.

Options to Avoid the Cost of Reconstituting—The Class I differentials in each market order could be changed so that fresh fluid milk produced locally would be fully competitive with reconstituted milk. Such a change would remove the economic incentive to reconstitute milk simply to circumvent the regulated prices (table 11).

The estimated adjustments in prevailing Class I prices necessary to make fresh fluid milk and reconstituted milk prices competitive are shown in Appendix table 4. They would vary from a decrease of $1.84 per hundredweight of milk in the Southeast to no adjustment in the Southwest.

Savings and costs associated with the modified CNI proposal (blended option with differentials reduced —impacts after three years) are shown below:

Changes in annual—	Million [illegible]
Consumer expenditures	399
Government purchases	230
Cash farm receipts from milk	576

It is important to note that these estimates of the impacts of changes in local minimum Class I prices represent maximum impacts and that they depend on the assumption that reconstituted milk products substitute effectively for fresh milk. Otherwise, neither the likely extent of adjustment in the minimum Class I prices or the effects on production, consumption, consumer expenditures, government costs or producer receipts can be estimated with any precision. Competition for local milk to meet fluid demands could reduce these impacts to the extent that consumers did not accept reconstituted products as substitutes for fresh milk.

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Table 11--Impacts of CNI Proposal, reconstituted milk blended with fresh milk is reclassified and Class I differentials are adjusted

Item	Region									
	NE	CB	LS	SE	SC	PL	M	SW	NW	U.S.
	Dollars per hundredweight									
Fluid milk price 1978	12.31	11.45	11.05	12.74	11.98	11.37	11.71	10.71	11.51	11.84
6 months	10.83	10.73	10.68	10.90	10.86	10.75	10.95	10.71	11.01	10.81
18 months	10.83	10.73	10.68	10.90	10.86	10.75	10.95	10.71	11.01	10.81
36 months	10.83	10.73	10.68	10.90	10.86	10.75	10.95	10.71	11.01	10.81
All milk price 1978	10.88	10.34	10.14	11.96	11.22	10.12	10.83	10.26	10.44	10.57
6 months	10.15	10.03	9.99	10.49	10.45	9.91	10.37	10.26	10.21	10.14
18 months	10.17	10.04	10.00	10.49	10.46	9.92	10.38	10.26	10.21	10.15
36 months	10.17	10.04	10.01	10.49	10.47	9.92	10.39	10.26	10.22	10.16
Mfg. milk price 1978										9.49
6 months										9.49
18 months										9.49
36 months										9.49
	Millions of pounds									
Milk production 1978	31,425	18,490	30,341	5,315	9,940	5,188	2,871	12,763	5,380	121,713
6 months	31,389	18,487	30,338	5,315	9,933	5,188	2,869	12,763	5,377	121,660
18 months	31,263	18,474	30,329	5,279	9,907	5,187	2,863	12,763	5,365	121,429
36 months	30,977	18,447	30,309	5,220	9,847	5,185	2,850	12,763	5,337	120,935
Fluid consumption 1978	19,585	10,240	2,794	4,900	7,535	1,294	1,912	6,178	1,851	56,290
6 months	19,651	10,259	2,796	4,929	7,561	1,297	1,915	6,178	1,853	56,439
18 months	19,981	10,349	2,806	5,073	7,687	1,308	1,933	6,178	1,865	57,179
36 months	19,981	10,349	2,806	5,073	7,687	1,308	1,933	6,178	1,865	57,179
Reconstituted used 1978	0	0	0	0	0	0	0	0	0	0
6 months	0	0	0	32	0	0	0	0	0	32
18 months	0	0	0	114	0	0	0	0	0	114
36 months	0	0	0	150	0	0	0	0	0	150
Mfg. consumption 1978										62,755
6 months										62,755
18 months										62,755
36 months										62,755
Gov't. purchases 1978										2,668
6 months										2,458
18 months										1,495
36 months										1,000
	Millions of dollars									
Cash farm receipts 1978	3,377	1,899	3,040	627	1,101	519	307	1,294	554	12,709
6 months	3,148	1,382	2,995	550	1,025	508	294	1,294	542	12,188
18 months	3,142	1,833	2,997	547	1,024	509	294	1,294	541	12,173
36 months	3,113	1,830	2,998	541	1,018	508	293	1,294	539	12,133

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Table 12: Impacts of the CNI proposal for blended reconstituted milk (differentials adjusted) after three years*

Region	Price per cwt: Fluid milk	Price per cwt: All milk	Milk production	Fluid milk consumption	Cash farm receipts
	percent change				
Northeast	-12.0	-6.5	-1.43	2.02	-7.82
Corn Belt	-6.3	-2.9	-0.23	1.06	-3.63
Lake States	-3.3	-1.3	-0.11	0.43	-1.38
Southeast	-14.4	-12.3	-1.79	3.53	-13.72
South Central	-9.4	-6.7	-0.94	2.02	-7.54
Plains	-5.5	-2.0	-0.06	1.08	-2.12
Mountain	-6.5	-4.1	-0.73	1.10	-4.56
Southwest	0	0	0	0	0
Northwest	-4.3	-2.1	-0.80	0.76	-2.71
United States	-8.7	-3.9	-0.64	1.58	-4.53

* For additional information on regional prices and use, see Appendix table 5.

Such a change in the differentials would reduce the national average fluid milk price $1.03 per hundredweight. consumption of reconstituted milk would be about 0.3 percent of U.S. fluid consumption and occur entirely in the Southeast region. This reconstituted milk likely would be made from butter and powder produced in other regions and shipped to the Southeast to meet occasional deficits in local milk production.

After three years, milk production would be down about 0.6 percent nationally with milk production down almost 2 percent in the Southeast (Table 12). The all-milk price would be about 12 percent lower in the Southeast representing a decline in cash farm receipts for the sale of milk of almost 14 percent in that region. Nationally, cash farm receipts would decline 4.5 percent

Options to Offset Impacts of the Reduction in Farm Cash Receipts—If the CNI proposal were adopted, and milk price supports were increased 43 cents per hundredweight at the same time the Class I differentials were adjusted so that any large reduction in farm cash receipts would be avoided, various impacts are implied (table 13).

Savings and costs associated with the modified CNI proposal (blended option with differentials reduced and supports increased—impacts after three years) are shown below:

Changes in annual—	Million dollars
Consumer expenditures	−231
Government purchases	+129
Cash farm receipts from milk	+6

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Table 13--Impacts of CNI proposal, if reconstituted milk blended with fresh milk is reclassified and Class I differential are adjusted, and the support price is increased

Item	Region									
	NE	CB	LS	SE	SC	PL	M	SW	NW	U.S.
	Dollars per hundredweight									
Fluid milk price 1978	12.31	11.45	11.05	12.74	11.98	11.37	11.71	10.71	11.51	11.84
6 months	11.26	11.16	11.11	11.33	11.29	11.18	11.38	11.14	11.44	11.24
18 months	11.26	11.16	11.11	11.33	11.29	11.18	11.38	11.14	11.44	11.24
36 months	11.26	11.16	11.11	11.33	11.29	11.18	11.38	11.14	11.44	11.24
All milk price 1978	10.88	10.34	10.14	11.96	11.22	10.12	10.83	10.26	10.44	10.57
6 months	10.58	10.46	10.42	10.92	10.87	10.34	10.80	10.69	10.64	10.57
18 months	10.59	10.46	10.43	10.92	10.89	10.34	10.81	10.68	10.63	10.57
36 months	10.59	10.46	10.43	10.92	10.89	10.34	10.81	10.67	10.63	10.57
Mfg. milk price 1978										9.49
6 months										9.92
18 months										9.92
36 months										9.92
	Millions of pounds									
Milk production 1978	31,425	18,490	30,341	5,315	9,940	5,188	2,871	12,753	5,380	121,713
6 months	31,410	18,491	30,346	5,317	9,937	5,188	2,871	12,777	5,383	121,720
18 months	31,359	18,496	30,366	5,288	9,925	5,189	2,871	12,832	5,393	121,720
36 months	31,244	18,507	30,410	5,247	9,899	5,191	2,870	12,953	5,416	121,737
Fluid consumption 1978	19,585	10,240	2,794	4,900	7,535	1,294	1,912	6,178	1,851	56,290
6 months	19,632	10,248	2,794	4,923	7,551	1,295	1,913	6,171	1,851	56,378
18 months	19,866	10,284	2,793	5,033	7,629	1,299	1,921	6,138	1,853	56,815
36 months	19,866	10,284	2,793	5,033	7,629	1,299	1,921	6,139	1,853	56,815
Reconstituted used 1978	0	0	0	0	0	0	0	0	0	0
6 months	0	0	0	29	0	0	0	0	0	29
18 months	0	0	0	86	0	0	0	0	0	86
36 months	0	0	0	107	0	0	0	0	0	107
Mfg. consumption 1978										62,755
6 months										62,542
18 months										61,475
36 months										61,475
Gov't. purchases 1978										2,668
6 months										2,800
18 months										3,430
36 months										3,447
	Millions of dollars									
Cash farm receipts 1978	3,377	1,889	3,040	627	1,101	519	307	1,294	554	12,709
6 months	3,283	1,911	3,124	573	1,067	530	306	1,349	566	12,707
18 months	3,280	1,911	3,129	570	1,064	530	307	1,359	566	12,712
36 months	3,268	1,912	3,133	566	1,065	530	306	1,368	569	12,715

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Table 14: Impacts of blended reconstituted milk (differentials adjusted and supports increased) after three years*

Region	Price per cwt: Fluid milk	Price per cwt: All milk	Milk production	Fluid milk: consumption	Cash farm receipts
	percent				
Northeast	-8.5	-2.7	-0.58	1.43	-3.23
Corn Belt	-2.5	1.2	0.09	0.43	1.22
Lake States	0.5	2.9	.23	-0.04	3.06
Southeast	-11.1	-8.7	-1.28	2.71	-9.73
South Central	-5.8	-2.9	-0.41	1.25	-3.27
Plains	-1.7	2.2	0.06	0.39	2.12
Mountain	-2.8	-0.2	-0.03	0.47	-0.33
Southwest	4.0	4.0	1.57	-0.63	5.72
Northwest	-0.6	1.8	0.67	0.11	2.70
United States	-5.1	0	0.02	0.93	0.05

* For additional information on regional prices and use, see Appendix table 6.

These actions would result in a decline in the all-milk price of about 8.7 percent in the Southeast region and an increase of 4 percent in the Southwest and 2.9 percent in the Lake States (table 14).

The Six Wisconsin Handlers' Proposal—The six Wisconsin handlers proposed an 81 cent per hundredweight decrease in the Class I differential in all federal orders. Such a reduction would directly reduce the price advantage reconstituted milk would have over fresh fluid milk. There would be a price incentive to use reconstituted milk made from nonfat dry milk and butterfat in three regions. In these regions the advantage would be small compared to those observed under the CNI proposal. For example, reconstituted milk would sell for 4.5 cents (rather than 8.1 cents) less per half gallon than fresh milk in the Southeast (Appendix table 7). The potential price advantage would be reduced to 3 cents per half gallon (from 6.6 cents) in the Northeast and to 1.4 cents (from 5 cents) in the South Central. Given these reduced price impacts, market penetration was constrained by the assumption that no more than 50 percent of total fluid consumption of a 70/30 reconstituted-fresh blend would be sold by 36 months.

By six months, the U.S. average fluid milk price would decline from $11.84 to $11.10 per hundredweight but only an additional 7 cent decline by 36 months (table 15). Fluid milk prices would decline in all regions except the Southwest where they would be expected to remain unchanged. Total U.S. fluid milk consumption would be expected to increase 1.2 percent by 36 months.

Reconstituted milk would be 2.3 percent of total fluid sales in 6 months, but increase to 12.7 percent by 36 months (Appendix table 8). Most of the reconstituted milk would be made from local milk processed into butter and powder solely to be reclassified. A relatively small amount of ingredients for reconstitution would be shipped from other regions to meet fluid deficits.

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Table 15--Impact of six Wisconsin handlers' proposal of reducing class I differentials 81 cents per hundredweight in all federal order markets

Item	Region									
	NE	CB	LS	SE	SC	PL	M	SW	NW	U.S.
	Dollars per hundredweight									
Fluid milk price 1978	12.31	11.45	11.05	12.74	11.98	11.37	11.71	10.71	11.51	11.84
6 months	11.47	10.64	10.24	11.85	11.16	10.56	10.90	10.71	10.70	11.10
18 months	11.42	10.64	10.24	11.74	11.14	10.56	10.90	10.71	10.70	11.07
36 months	11.36	10.64	10.24	11.57	11.12	10.56	10.90	10.71	10.70	11.03
All milk price 1978	10.88	10.34	10.14	11.96	11.22	10.12	10.83	10.26	10.44	10.57
6 months	10.43	9.99	9.81	11.13	10.63	9.85	10.34	10.26	10.06	10.19
18 months	10.37	10.00	9.81	10.89	10.58	9.85	10.35	10.26	10.07	10.17
36 months	10.27	10.00	9.81	10.58	10.49	9.85	10.36	10.26	10.07	10.12
Mfg. milk price 1978										9.49
6 months										9.49
18 months										9.49
36 months										9.49
	Millions of pounds									
Milk production 1978	31,425	18,490	30,341	5,315	9,940	5,188	2,871	12,763	5,380	121,713
6 months	31,403	18,486	30,335	5,311	9,935	5,188	2,869	12,763	5,375	121,660
18 months	31,309	18,472	30,312	5,291	9,912	5,187	2,863	12,763	5,355	121,464
36 months	31,040	18,441	30,262	5,229	9,850	5,184	2,848	12,763	5,310	120,929
Fluid consumption 1978	19,585	10,240	2,794	4,900	7,535	1,294	1,912	6,178	1,851	56,290
6 months	19,622	10,261	2,799	4,914	7,554	1,297	1,916	6,178	1,855	56,395
18 months	19,823	10,362	2,820	4,994	7,649	1,312	1,935	6,178	1,874	56,946
36 months	19,839	10,362	2,820	5,010	7,652	1,312	1,935	6,178	1,874	56,981
Reconstituted used 1978	0	0	0	0	0	0	0	0	0	0
6 months	981	0	0	144	189	0	0	0	0	1,314
18 months	2,379	0	0	899	688	0	0	0	0	3,966
36 months	4,166	0	0	1,754	1,339	0	0	0	0	7,259
Mfg. consumption 1978										62,755
6 months										62,755
18 months										62,755
36 months										62,755
Gov't. purchases 1978										2,668
6 months										2,510
18 months										1,763
36 months										1,193
	Millions of dollars									
Cash farm receipts 1978	3,377	1,889	3,040	627	1,101	519	307	1,294	554	12,709
6 months	3,237	1,825	2,941	584	1,043	505	293	1,294	534	12,250
18 months	3,210	1,826	2,939	569	1,036	505	293	1,294	533	12,204
36 months	3,161	1,822	2,934	549	1,023	505	291	1,294	528	12,108

Gross farm receipts would decline nationally 4.7 percent and 12.4 percent in the Southeast by 36 months.

Option to Reduce Uneconomic Reconstituting—The uneconomic processing of local milk into butter and powder solely to have the milk reclassified could be avoided if further adjustments in Class I differentials were made in the Northeast, Southeast and South Central regions. In these regions reconstituted milk would still cost less than fresh fluid milk even with 81 cents lower differentials. The resulting Class I differentials for the total adjustment in the three regions, are shown in Appendix table 9.

Under this assumption the six Wisconsin handlers' proposal would be expected to result in a drop in the U.S. average fluid milk price from $11.84 to $10.76 per hundredweight by 6 months. No further declines would be expected by 36 months (table 16).

About 0.3 percent of total U.S. fluid milk consumption would be shipped as butter-powder and all of this to the Southeast. This would be equivalent to 3 percent of fluid consumption in that region (Appendix table 10). The fluid milk price nationally would decline 9.1 percent after 36 months. However, it would decline 14.4 percent in the Southeast and 12.0 percent in the Northeast. It would be expected to remain the same in the Southwest. Milk production would decline 0.7 percent nationally and the all-milk price would be 4.5 percent lower. Gross farm sales would be expected to decline 5.2 percent.

Options to Offset Decline in Farm Price—The six Wisconsin handlers' proposal would result in lower farm prices nationally and in all regions but the Southwest.

The potential decline in the average U.S. all-milk price due to the six Wisconsin handlers' proposal could be offset by increasing the support price 38 cents after six months, 40 cents after 18 months and 46 cents after 36 months (table 17). The all-milk wholesale price would decline 7.7 percent in the Southeast but increase 4.3 percent in the Southwest. Farmers would also receive higher prices in the Corn Belt, Lake States, Plains and Northwest regions (Appendix table 11).

Changes in cash farm receipts would range from an increase of about 5.9 percent in the Southwest to a decrease of about 8.6 percent in the Southeast.

The potential decline in the average all-milk price due to the six Wisconsin handlers' proposal plus additional adjustments in differentials to avoid uneconomic reconstituting could be offset by increasing the support price for milk by 48 cents (table 18). The all-milk price would be expected to decline 8.3 percent in the Southeast, 2.5 percent in the South Central and 2.2 percent in the Northeast (Appendix table 12).

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Table 16--Impact of six Wisconsin handlers' proposal of reducing Class I differentials 81 cents per hundredweight in all federal order markets, with additional adjustments in Class I differentials

Item	Region									
	NE	CB	LS	SE	SC	PL	M	SW	NW	U.S.
	Dollars per hundredweight									
Fluid milk price 1978	12.31	11.45	11.05	12.74	11.98	11.37	11.71	10.71	11.51	11.84
6 months	10.83	10.64	10.24	10.90	10.86	10.56	10.90	10.71	10.70	10.76
18 months	10.83	10.64	10.24	10.90	10.86	10.56	10.90	10.71	10.70	10.76
36 months	10.83	10.64	10.24	10.90	10.86	10.56	10.90	10.71	10.70	10.76
All milk price 1978	10.88	10.34	10.14	11.96	11.22	10.12	10.83	10.26	10.44	10.57
6 months	10.15	9.99	9.81	10.49	10.45	9.85	10.34	10.26	10.06	10.08
18 months	10.17	10.00	9.81	10.49	10.46	9.85	10.35	10.26	10.07	10.09
36 months	10.17	10.00	9.82	10.49	10.47	9.85	10.36	10.26	10.07	10.09
Mfg. milk price 1978										9.49
6 months										9.49
18 months										9.49
36 months										9.49
	Millions of pounds									
Milk production 1978	31,425	18,490	30,341	5,315	9,940	5,188	2,871	12,763	5,380	121,713
6 months	31,389	18,486	30,335	5,315	9,933	5,188	2,869	12,763	5,375	121,653
18 months	31,263	18,472	30,313	5,279	9,907	5,187	2,863	12,763	5,355	121,400
36 months	30,977	18,441	30,264	5,220	9,847	5,184	2,848	12,763	5,310	120,854
Fluid consumption 1978	19,585	10,240	2,794	4,900	7,535	1,294	1,912	6,178	1,851	56,290
6 months	19,651	10,261	2,799	4,929	7,560	1,297	1,916	6,178	1,855	56,446
18 months	19,980	10,362	2,820	5,073	7,687	1,312	1,935	6,178	1,874	57,221
36 months	19,980	10,362	2,820	5,073	7,687	1,312	1,935	6,178	1,874	57,221
Reconstituted used 1978	0	0	0	0	0	0	0	0	0	0
6 months	0	0	0	32	0	0	0	0	0	32
18 months	0	0	0	114	0	0	0	0	0	114
36 months	0	0	0	150	0	0	0	0	0	150
Mfg. consumption 1978										62,755
6 months										62,755
18 months										62,755
36 months										62,755
Gov't purchase 1978										2,668
6 months										2,453
18 months										1,424
36 months										879
	Millions of dollars									
Cash farm receipts 1978	3,377	1,889	3,040	627	1,101	519	307	1,294	554	12,709
6 months	3,148	1,825	2,941	551	1,025	505	293	1,294	534	12,116
18 months	3,142	1,826	2,939	547	1,024	505	293	1,294	533	12,103
36 months	3,113	1,822	2,938	541	1,018	505	291	1,294	528	12,051

Table 17--Impact of six Wisconsin handlers' proposal of reducing Class I differentials 81 cents per hundred weight in all federal order markets, and support price is increased

Item	Region									
	NE	CB	LS	SE	SC	PL	M	SW	NW	U.S.
	Dollars per hundredweight									
Fluid milk price 1978	12.31	11.45	11.05	12.74	11.98	11.37	11.71	10.71	11.51	11.84
6 months	11.85	11.02	10.62	12.23	11.54	10.94	11.28	11.09	11.08	11.48
18 months	11.82	11.04	10.64	12.14	11.54	10.96	11.30	11.11	11.10	11.47
36 months	11.82	11.10	10.70	12.03	11.58	11.02	11.36	11.17	11.16	11.49
All milk price 1978	10.88	10.34	10.14	11.96	11.22	10.12	10.83	10.26	10.44	10.57
6 months	10.81	10.37	10.19	11.46	11.01	10.23	10.72	10.64	10.44	10.57
18 months	10.76	10.39	10.21	11.29	10.97	10.25	10.75	10.65	10.46	10.57
36 months	10.73	10.45	10.27	11.04	10.93	10.31	10.81	10.70	10.52	10.57
Mfg. milk price 1978										9.49
6 months										9.87
18 months										9.89
36 months										9.95
	Millions of pounds									
Milk production 1978	31,425	18,490	30,341	5,315	9,940	5,188	2,871	12,763	5,380	121,713
6 months	31,422	18,490	30,341	5,313	9,938	5,188	2,871	12,775	5,380	121,718
18 months	31,398	18,493	30,347	5,300	9,929	5,189	2,870	12,827	5,382	121,735
36 months	31,327	18,506	30,372	5,258	9,904	5,191	2,870	12,967	5,395	121,790
Fluid consumption 1978	19,585	10,240	2,794	4,900	7,535	1,294	1,912	6,178	1,851	56,290
6 months	19,605	10,251	2,797	4,908	7,545	1,296	1,914	6,172	1,853	56,341
18 months	19,716	10,302	2,807	4,957	7,595	1,303	1,923	6,141	1,862	56,607
36 months	19,716	10,293	2,805	4,967	7,590	1,302	1,922	6,136	1,861	56,591
Reconstituted used 1978	0	0	0	0	0	0	0	0	0	0
6 months	980	0	0	368	189	0	0	0	0	1,537
18 months	2,366	0	0	892	684	0	0	0	0	3,942
36 months	4,140	0	0	1,739	1,328	0	0	0	0	7,207
Mfg. consumption 1978										62,755
6 months										62,567
18 months										61,565
36 months										61,386
Gov't. purchases 1978										2,668
6 months										2,810
18 months										3,563
36 months										3,813
	Millions of dollars									
Cash farm receipts 1978	3,377	1,889	3,040	627	1,101	519	307	1,294	554	12,709
6 months	3,355	1,894	3,054	601	1,080	524	304	1,343	555	12,711
18 months	3,337	1,898	3,062	591	1,076	526	305	1,348	556	12,697
36 months	3,320	1,910	3,082	573	1,069	529	306	1,370	561	12,721

Table 18--Impact of six Wisconsin handlers' proposal of reducing Class I differentials 81 cents per hundredweight in all federal order markets, with additional adjustments in Class I differentials and support price is increased

Item	Region									
	NE	CB	LS	SE	SC	PL	M	SW	NW	U.S.
	Dollars per hundredweight									
Fluid milk price 1978	12.31	11.45	11.05	12.74	11.98	11.37	11.71	10.71	11.51	11.84
6 months	11.31	11.12	10.72	11.38	11.34	11.04	11.38	11.19	11.18	11.26
18 months	11.31	11.12	10.72	11.38	11.34	11.04	11.38	11.19	11.18	11.26
36 months	11.31	11.12	10.72	11.38	11.34	11.04	11.38	11.19	11.18	11.26
All milk price 1978	10.88	10.34	10.14	11.96	11.22	10.12	10.83	10.26	10.44	10.57
6 months	10.63	10.47	10.29	10.97	10.92	10.32	10.82	10.74	10.54	10.56
18 months	10.64	10.47	10.29	10.97	10.93	10.33	10.83	10.73	10.54	10.56
36 months	10.64	10.47	10.29	10.97	10.94	10.34	10.83	10.72	10.54	10.56
Mfg. milk price 1978										9.49
6 months										9.97
18 months										9.97
36 months										9.97
	Millions of pounds									
Milk production 1978	31,425	18,490	30,341	5,315	9,940	5,188	2,871	12,763	5,380	121,713
6 months	31,413	18,491	30,344	5,317	9,937	5,188	2,871	12,778	5,381	121,721
18 months	31,370	18,497	30,354	5,290	9,927	5,189	2,871	12,840	5,387	121,725
36 months	31,275	18,509	30,377	5,250	9,905	5,191	2,871	12,975	5,399	121,752
Fluid consumption 1978	19,585	10,240	2,794	4,900	7,535	1,294	1,912	6,178	1,851	56,290
6 months	19,629	10,249	2,796	4,922	7,550	1,295	1,913	6,171	1,853	56,378
18 months	19,852	10,290	2,805	5,028	7,622	1,302	1,921	6,134	1,860	56,813
36 months	19,852	10,290	2,805	5,028	7,622	1,302	1,921	6,134	1,860	56,813
Reconstituted used 1978	0	0	0	0	0	0	0	0	0	0
6 months	0	0	0	29	0	0	0	0	0	29
18 months	0	0	0	83	0	0	0	0	0	83
36 months	0	0	0	103	0	0	0	0	0	103
Mfg. consumption 1978										62,755
6 months										62,517
18 months										61,327
36 months										61,327
Gov't. purchases 1978										2,668
6 months										2,827
18 months										3,585
36 months										3,612
	Millions of dollars									
Cash farm receipts 1978	3,377	1,889	3,040	627	1,101	519	307	1,294	554	12,709
6 months	3,298	1,913	3,085	576	1,072	529	307	1,355	560	12,695
18 months	3,297	1,913	3,086	573	1,071	530	307	1,361	561	12,699
36 months	3,287	1,914	3,088	569	1,070	530	307	1,374	562	12,701

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6. USDA and Other Government Costs

Because the options considered in this impact statement generally would lead to reductions in milk production, a smaller government expenditure would be required to support the manufacturing milk price at the same level as before the option was implemented. For those options where support levels are increased, the government would need to purchase more dairy products to offset potential declines in the U.S. average all-milk price.

Results for both the CNI and six Wisconsin handlers' proposals under different assumptions indicate that government costs could be reduced from the 1978 level of $368 million annually to $121 million (table 19).

7. Other Significant Economic Impacts

(a) *Retail Prices.* The price per half gallon of milk could decline from 98.2 cents to 90.1 cents in the Southeast or 8.2 percent (table 20). Retail prices in this region would be the most affected when compared to the other regions. In the Southwest the retail price per half gallon would not be expected to decline, and when the price support is increased, it would be expected to increase.

The retail price per half pound of cheese would be unchanged unless the support price was increased (table 20).

(b) *Consumer Expenditures.* Consumer expenditures for fluid milk would be expected to decline in most regions and from $12,044 million to as much as $11,622 million nationally depending on the proposal and associated assumptions (table 21). Only when the support price was increased would consumer expenditures for manufactured products be expected to increase.[11]

Tabale 19. Estimated government removals and Commodity Credit Corporation purchase costs for CNI and six Wisconsin handlers' proposal under selected assumptions.

Alternative	Government removals	Change from 1978 removals	CCC purchase costs	Change from 1978 costs
	Million pounds		Million dollars	
1978 Actual	2,668	0	368	0
CNI Unblended				
Alone	2,270	-398	313	-55
Adjusted differential	1,000	-1,668	138	-230
Increased support	2,992	324	418	50
Adjusted differential and increased support	3,447	779	497	129
CNI Blended				
Alone	1,470	-1,198	203	-165
Adjusted differential	1,000	-1,668	138	-230
Increased support	3,812	1,144	549	181
Adjusted differential and increased support	3,447	779	497	129
Six Wisconsin Handlers'				
Alone	1,193	-1,475	165	-203
Adjusted differential	879	-1,789	121	-247
Increased support	3,813	1,145	551	183
Adjusted differential and increased support	3,612	944	523	155

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[11] Consumer expenditures for fluid milk in each region calculated as: (Retail price per ½ gallon) 22.7 × fluid consumption

Consumer expenditures for manufactured dairy products is calculated as: [(Manufacturing milk price) + (10.34)] × Manufacturing consumption

Table 20. Impact of CNI and six Wisconsin handlers' proposals under different assumptions on retail fluid milk and cheese prices.

Item	Actual 1978	CNI Unblended				CNI Blended				Wisconsin handlers'			
		Alone	Adj. diff.	Increase support	Adj. diff. and increase support	Alone	Adj. diff.	Increase support	Adj. diff. and increase support	Alone	Adj. diff.	Increase support	Adj. diff. and increase support
	(cents)	Percent change											
Retail prices per half gallon													
Northeast	96.3	-1.0	-6.7	-0.4	-4.8	-3.4	-6.7	-1.6	-4.8	-4.4	-6.7	-2.2	-4.6
Corn Belt	92.5	-0.3	-3.4	0.3	-1.3	-1.2	-3.4	0.8	-1.3	-3.8	-3.8	-1.6	-1.5
Lake States	90.6	0.1	-1.7	0.7	0.4	-0.4	-1.7	1.5	0.4	-3.8	-3.8	-1.5	-1.4
Southeast	98.2	-1.6	-8.2	-1.1	-6.3	-4.6	-8.2	-2.7	-6.3	-5.2	-8.2	-3.2	-6.1
South Central	94.9	-0.8	-5.3	-0.3	-3.3	-2.2	-5.3	-0.3	-3.3	-4.0	-5.3	-1.9	-3.1
Plains	92.2	-0.2	-3.0	0.4	-1.0	-1.1	-3.0	0.9	-1.0	-3.9	-3.9	-1.7	-1.6
Mountain	93.7	-0.2	-3.6	0.3	-1.6	-1.3	-3.6	0.6	-1.6	-3.8	-3.8	-1.7	-1.6
Southwest	89.3	0	0	0.6	2.1	0	0	2.0	2.1	0	0	2.2	2.4
Northwest	92.3	-0.4	-1.8	1.0	0.2	-0.2	-1.8	1.7	0.2	-3.4	-3.4	-1.1	-1.1
United States	94.2	-0.6	-5.3	-0.1	-2.7	-2.5	-5.3	-0.3	-2.7	-4.2	-5.6	-1.6	-2.8
Retail price per half lb. of cheese	104.1	0	0	0.6	2.1	0	0	2.0	2.1	0	0	2.3	2.4

Table 21. Impact on consumer expenditures of CNI and six Wisconsin handlers' proposals under alternative assumptions on consumer expenditures for fluid and manufactured dairy products.

Item	Actual 1978	CNI Unblended				CNI Blended				Wisconsin handlers'			
		Alone	Adj. Diff.	Increase support	Adj. diff. and increase support	Alone	Adj. diff.	Increase support	Adj. diff. and increase support	Alone	Adj. diff.	Increase support	Adj. diff. and increase support
Consumer expenditures (retail level):		Million dollars											
Fluid milk													
Northeast	4,282	4,252	4,073	4,268	4,135	4,176	4,073	4,234	4,135	4,149	4,073	4,214	4,142
Corn Belt	2,151	2,146	2,099	2,154	2,130	2,133	2,099	2,162	2,130	2,092	2,093	2,126	2,127
Lake States	576	575	568	578	577	573	568	583	577	558	558	568	569
Southeast	1,092	1,082	1,038	1,085	1,051	1,063	1,038	1,075	1,051	1,058	1,038	1,072	1,052
South Central	1,623	1,615	1,569	1,620	1,590	1,601	1,569	1,620	1,590	1,582	1,569	1,604	1,593
Plains	271	271	266	272	269	269	266	272	269	264	264	268	268
Mountain	407	406	396	407	402	403	396	408	402	396	395	402	402
Southwest	1,252	1,252	1,252	1,257	1,270	1,252	1,252	1,269	1,270	1,252	1,252	1,272	1,272
Northwest	390	390	384	391	389	388	384	393	389	380	380	385	386
United States	12,044	11,989	11,645	12,032	11,813	11,858	11,645	12,016	11,813	11,731	11,622	11,911	11,811
Manufactured Products	12,620	12,620	12,620	12,623	12,627	12,620	12,620	12,627	12,627	12,620	12,620	12,627	12,627
Total all Products	24,664	24,609	24,265	24,655	24,440	24,478	24,265	24,643	24,440	24,351	24,242	24,538	24,438

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(c) *Gross Sales per Farm.* Cash farm sales in each region would follow the same regional pattern as farm prices. Limited information is available on the income situation on dairy farms; however, farm-account record data for some Northeast dairy farms indicate that a decline of 43 cents per hundredweight in farm prices would reduce net cash income per farm about 13 percent—net cash income being operating receipts minus operating expenses.[12] This is a major impact even though a 43-cent decline is only a 4-percent lower milk price.

As the preceeding analysis shows, the impacts of these proposals are not shared equally by all dairy farmers. The more milk produced on the farm, the greater the impact of a price change on gross sales. For example, nationally, the 49.6 percent of the farms with less than 30 cows and more than $2,500 farm sales produced about 11.7 percent of the milk. On the other extreme, the 7.6 percent of the farmers with 100 or more cows accounted for 36 percent of the milk produced.

There are about seven times as many dairy herds with 1–29 cows as dairy herds with 100 or more cows (Appendix table 13). The decline in gross farm receipts for the average herd with 1–29 cows could range from $147 to $1,023 in the Northeast, $241 to $576 in the Southeast, and from $73 to $432 in the South Central region (Appendix table 14). This is gross farm sales and does not account for producing less milk and the saving in feed and other variable costs associated with the implied reductions in production.

For some options (when support price is increased) the gross receipts per farm would increase in the Lake States, Corn Belt, Plains and Southwest and Northwest regions.

(d) *Solids Not Fat Content of Milk.* By administrative regulation, the Food and Drug Administration now requires a minimum of 8.25 percent solids not-fat level. However, market milk tends to exceed that level at about 8.75 percent. Partly because of state adulteration laws, and partly because of concern about consumer acceptance, there has been little industry interest in standardizing the solids not-fat level in milk, although there are a few markets where fortified milk is sold with solids not-fat above the normal 8.75 percent level.

Because the solids not-fat in reconstituted milk could be standardized easily, there would be an opportunity and there could be an incentive to standardize the product at the minimum level. To do so would reduce product costs.

Whether or not standardization of solids not-fat levels below current levels would follow the reclassification of reconstituted milk would depend on consumer acceptance and demand as well as cost advantages. A product with only current minimum levels of solids not-fat could be sold at a somewhat lower price. Whether or not consumers would choose to pay the cost of current solids not-fat levels (or higher levels) is unknown, and is not covered in this analysis.

(e) *Increased Burden of Administering Milk Orders.* The CNI proposal would be expected to increase the administrative cost of the milk order program especially under the "blended" option. It would require additional reporting and verification of reconstituted milk use and added testing requirements. The extent of these requirements and their impact on the operation of the orders cannot be estimated at the present time.

Dated: October 15, 1980.

Susan Sechler,

Deputy Director, Economics, Policy Analysis and Budget.

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[12] Electronic Farm Accounts (ELFAC) records for June–September 1979, University of New Hampshire Extension Service.

Appendix table 1--Price advantage, amount used and market share of reconstituted milk and 36 month impacts of CNI proposal, unblended

Region	Reconstituted milk			Percent change after 36 months				
	Price advantage per half gallon of 100 percent reconstituted	Amount used	Market share of total fluid consumption	Price per cwt.: Fluid milk	Price per cwt.: All milk	Milk production	Fluid milk consumption	Cash farm receipts
	Cents	Mil. lbs.		Percent				
Northeast	6.6	2,947	15	-1.8	-1.9	-0.43	0.32	-2.13
Corn Belt	3.2	1,025	10	-0.6	-1.0	-0.08	0.11	-0.95
Lake States	1.6	140	5	-0.2	-0.1	0	0.04	-0.07
Southeast	8.1	987	20	-2.9	-5.4	-0.75	0.71	-5.74
South Central	5.0	1,134	15	-1.4	-2.1	-0.30	0.31	-2.27
Plains	2.7	65	5	-0.3	-0.2	-0.02	0.08	-0.39
Mountain	3.3	191	10	-0.3	-0.9	-1.46	0.05	-0.98
Southwest	0	0	0	0	0	0	0	0
Northwest	2.2	83	5	-0.3	-0.3	-0.11	0.05	-0.18
United States	-	6,581	11.7	-1.3	-1.1	-0.22	0.23	-1.26

Appendix table 2--Price advantage, amount used and market share of reconstituted milk and 36 month impacts of CNI proposal, blended

Region	Reconstituted milk			Percent change after 36 months				
	Price advantage per half gallon of 100 percent reconstituted	Amount used	Market share of total fluid consumption	Price per cwt.: Fluid milk	Price per cwt.: All milk	Milk production	Fluid milk consumption	Cash farm receipts
	(cents)	(mil.lbs.)	(percent)	Percent				
Northeast	6.6	9,696	47	-6.2	-6.6	-1.46	1.04	-7.31
Corn Belt	3.2	3,597	35	-2.2	-3.2	-0.25	0.37	-3.23
Lake States	1.6	788	21	-1.3	-1.2	-0.10	0.18	-0.76
Southeast	8.1	2,798	56	-8.1	-12.6	-1.77	1.98	-13.56
South Central	5.0	3,192	42	-3.5	-6.1	-0.86	0.85	-6.45
Plains	2.7	455	35	-1.9	-1.7	-0.06	0.39	-1.73
Mountain	3.3	672	35	-1.5	-3.9	-0.70	0.37	-4.23
Southwest	0	0	0	0	0	0	0	0
Northwest	2.2	585	32	-1.4	-1.9	-0.71	0.27	-1.99
United States	--	21,583	19	-4.1	-3.9	-0.64	0.75	-4.09

Appendix table 3--Price advantage, amount used and market share of reconstituted milk and 36 month impacts of CNI proposal, blended, increased support.

Region	Reconstituted milk			Percent change after 36 months				
				Price per cwt.				
	Price advantage per half gallon of 100 percent reconstituted	Amount used	Market share of total fluid consumption	Fluid milk	All milk	Milk production	Fluid milk consumption	Cash farm receipts
	(cents)	(mil.lbs.)	(percent)	Percent				
Northeast	6.6	9,642	49	-2.8	-2.9	-0.65	0.47	-3.55
Corn Belt	3.2	3,576	35	1.4	0.3	0.02	-0.23	0.32
Lake States	1.6	586	21	2.4	3.4	0.27	-0.29	3.62
Southeast	8.1	2,777	56	-4.9	-9.1	-1.28	1.20	-10.21
South Central	5.0	3,042	42	-0.5	-2.5	-0.35	0.11	-2.82
Plains	2.7	451	35	1.7	2.3	0.08	-0.31	2.31
Mountain	3.3	668	35	1.2	-0.3	-0.0	-0.21	-0.33
Southwest	0	0	0	3.8	3.8	1.42	-0.62	5.26
Northwest	2.2	581	31	2.2	1.8	0.69	-0.38	2.71
United States	-	21,323	38	-0.7	0	0	0.13	0.06

Appendix Table 4--Adjustments in Class I differentials needed to make fresh milk prices competitive with reconstituted milk--CNI proposal, unblended

Region	1978 Class I differentials	Reduction		New differential
		Per hundredweight	Per half-gallon	
	(Dollars)	(Dollars)	(Cents)	(Dollars)
Northeast	2.83	1.49	6.6	1.34
Corn Belt	1.96	.72	3.2	1.24
Lake States	1.56	.37	1.6	1.19
Southeast	3.25	1.84	8.1	1.41
South Central	2.49	1.12	5.0	1.37
Plains	1.88	.62	2.7	1.26
Mountain	2.22	.76	3.3	1.46
Southwest	1.22	0	0	1.22
Northwest	2.02	.50	2.2	1.52
U. S. average	2.35	1.03	4.6	1.32

Appendix table 5--Price advantage, amount used and market share of reconstituted milk and 36 month impacts of CNI proposal, blended, adjusted differentials

Region	Reconstituted milk			Percent change after 36 months				
	Price advantage per half gallon of 100 percent reconstituted	Amount used	Market share of total fluid consumption	Price per cwt.: Fluid milk	Price per cwt.: All milk	Milk production	Fluid milk consumption	Cash farm receipts
	Cents	Mil. lbs.		Percent				
Northeast	0	0	0	-12.0	-6.5	-1.43	2.02	-7.82
Corn Belt	0	0	0	-6.3	-2.9	-0.23	1.06	-3.63
Lake States	0	0	0	-3.3	-1.3	-0.11	0.43	-1.38
Southeast	0	150	3.1	-14.4	-12.3	-1.79	3.53	-13.72
South Central	0	0	0	-9.4	-6.7	-0.94	2.02	-7.54
Plains	0	0	0	-5.5	-2.0	-0.06	1.08	-2.12
Mountain	0	0	0	-6.5	-4.1	-0.73	1.10	-4.56
Southwest	0	0	0	0	0	0	0	0
Northwest	0	0	0	-4.3	-2.1	-0.80	0.76	-2.71
United States	0	150	0.3	-8.7	-3.9	-0.64	1.58	-4.53

Appendix table 6--Price advantage, amount used and market share of reconstituted milk and 36 month impacts of CNI proposal, blended, adjusted differential and higher support price

Region	Reconstituted milk			Percent change after 36 months				
	Price advantage per half gallon of 100 percent reconstituted	Amount used	Market share of total fluid consumption	Price per cwt.: Fluid milk	Price per cwt.: All milk	Milk production	Fluid milk consumption	Cash farm receipts
	(cents)	(mil.lbs.)	(percent)	Percent				
Northeast	0	0	0	-8.5	-2.7	-0.58	1.43	-3.23
Corn Belt	0	0	0	-2.5	1.2	0.09	0.43	1.22
Lake States	0	0	0	0.5	2.9	0.23	-0.04	3.06
Southeast	0	107	2.1	-11.1	-8.7	-1.28	2.71	-9.73
South Central	0	0	0	-5.8	-2.9	-0.41	1.25	-3.27
Plains	0	0	0	-1.7	2.2	0.06	0.39	2.12
Mountain	0	0	0	-2.8	-0.2	-0.03	0.47	-0.33
Southwest	0	0	0	4.0	4.0	1.57	-0.63	5.72
Northwest	0	0	0	-0.6	1.8	0.67	0.11	2.70
United States	0	107	0.2	-5.1	0	0.02	0.93	0.05

Appendix table 7--Assumed market penetration of reconstituted milk and blended with fresh milk after an 81 cent decrease in Class I differentials

Region	Price advantage per half gallon of 100 percent reconstituted milk	Percent of market for		
		50% reconstituted blend (6 months)	60% reconstituted blend (18 months)	70% reconstituted blend (36 months)
	cents	percent		
Northeast	3.0	10	20	30
Corn Belt	0	0	0	0
Lake States	0	0	0	0
Southeast	4.5	15	30	50
South Central	1.4	5	15	25
Plains	0	0	0	0
Mountain	0	0	0	0
Southwest	0	0	0	0
Northwest	0	0	0	0

Appendix table 8--Price advantage, amount used and market share of reconstituted milk and 36 month impacts of six Wisconsin handlers' proposal

Region	Reconstituted milk			Percent change after 36 months				
	Price advantage per half gallon of 100 percent reconstituted	Amount used	Market share of total fluid consumption	Price per cwt.: Fluid milk	Price per cwt.: All milk	Milk production	Fluid milk consumption	Cash farm receipts
	Cents	Mil. lbs.		Percent				
Northeast	3.0	4,166	21	-7.7	-5.6	-1.23	1.30	-6.40
Corn Belt	0	0	0	-7.1	-3.3	-0.27	1.19	-3.55
Lake States	0	0	0	-7.3	-3.3	-0.26	0.93	-3.49
Southeast	4.5	1,754	35	-9.2	-11.5	-1.62	2.24	-12.44
South Central	1.4	1,339	17	-7.2	-6.5	-0.91	1.55	-7.08
Plains	0	0	0	-7.1	-2.7	-0.08	1.39	-2.70
Mountain	0	0	0	-6.9	-4.3	-0.80	1.20	-5.21
Southwest	0	0	0	0	0	0	0	0
Northwest	0	0	0	-7.0	-3.5	-1.30	1.24	-4.69
United States	-	7,259	12.7	-6.8	-4.3	-0.64	1.23	-4.73

Appendix Table 9--Adjustments in Class I differentials needed to reduce differentials 81 cents per hundredweight and to make fresh milk fluid milk prices competitive with reconstituted milk prices - six Wisconsin handler's proposal

	1978 Class I differentials	Reduction		New differentials
		Per hundredweight	Per half gallon	
	Dollars	Dollars	Cents	Dollars
Northeast	2.83	1.49	6.6	1.34
Corn Belt	1.96	.81	3.6	1.15
Lake States	1.56	.81	3.6	.75
Southeast	3.25	1.84	8.1	1.41
South Central	2.49	1.12	4.9	1.37
Plains	1.88	.81	3.6	1.07
Mountain	2.22	.81	3.6	1.41
Southwest	1.22	.81	3.6	1.22
Northwest	2.02	.81	3.6	1.21

Appendix Table 10--Price advantage, amount used and market share of reconstituted milk and 36 month impacts of six Wisconsin handler's proposal, with additional adjustments of Class I differentials

Region	Reconstituted Milk			Percent change after 36 months				
	Price advantage per half gallon	Amount used	Market share of total fluid consumption	Price per cwt.: Fluid milk	Price per cwt.: All milk	Milk production	Fluid milk consumption	Cash farm receipts
	(Cents)	(Mil. lbs.)	(Percent)	Percent				
Northeast	0	0	0	-12.0	- 6.5	-1.43	2.02	- 7.82
Corn Belt	0	0	0	- 7.1	- 3.3	-0.27	1.19	- 3.55
Lake States	0	0	0	- 7.3	- 3.2	-0.25	0.93	- 3.36
Southeast	0	150	3.0	-14.4	-12.3	-1.79	3.53	-13.72
South Central	0	0	0	- 9.3	- 6.7	-0.94	2.02	- 7.54
Plains	0	0	0	- 7.1	- 2.7	-0.08	1.39	- 2.70
Mountain	0	0	0	- 6.9	- 4.3	-0.80	1.20	-5.21
Southwest	0	0	0	0	0	0	0	0
Northwest	0	0	0	- 7.0	- 3.5	- 1.3	1.24	- 4.69
United States	-	150	0.3	- 9.1	- 4.5	- 0.71	1.65	- 5.18

Appendix Table 11--Price advantage, amount used and market share of reconstituted milk and 36 month impacts of six Wisconsin handler's proposal, increase in support

Region	Reconstituted Milk			Percent change after 36 months				
	Price advantage per half gallon	Amount used	Market share of total fluid consumption	Price per cwt.: Fluid milk	Price per cwt.: All milk	Milk production	Fluid milk consumption	Cash farm receipts
	(Cents)	(Mil. lbs.)	(Percent)	Percent	Percent	Percent	Percent	Percent
Northeast	3.0	4,140	21	-4.0	-1.4	-0.31	0.67	-1.69
Corn Belt	0	0	0	-3.1	1.1	0.09	0.52	1.11
Lake States	0	0	0	-3.2	1.3	0.10	0.39	1.38
Southeast	4.5	1,739	35	-5.6	-7.7	-1.07	1.37	-8.61
South Central	1.4	1,328	17	-3.3	-2.6	-0.36	0.73	-2.91
Plains	0	0	0	-3.1	1.9	0.06	0.62	1.93
Mountain	0	0	0	-3.0	-0.2	-0.03	0.52	-0.33
Southwest	0	0	0	4.3	4.3	1.60	-0.68	5.87
Northwest	0	0	0	-3.0	0.8	0.28	0.54	2.94
United States	-	7,207	12.7	-3.0	0	0.06	0.53	0.09

Appendix Table 12--Price advantage, amount used and market share of reconstituted milk and 36 month impacts of six Wisconsin handlers' proposal, with additional adjustments in differentials and increase in support

Region	Reconstituted Milk			Percent change after 36 months				
	Price advantage per half gallon	Amount used	Market share of total fluid consumption	Price per cwt.: Fluid milk	Price per cwt.: All milk	Milk production	Fluid milk consumption	Cash farm receipts
	(Cents)	(Mil. lbs.)	(Percent)	Percent	Percent	Percent	Percent	Percent
Northeast	0	0	0	- 8.1	-2.2	-0.48	1.36	-2.67
Corn Belt	0	0	0	- 2.9	1.3	0.10	0.49	1.32
Lake States	0	0	0	- 3.0	1.5	0.12	0.39	1.58
Southeast	0	103	2.0	-10.7	-8.3	-1.22	2.61	-9.25
South Central	0	0	0	- 5.3	-2.5	-0.35	1.15	-2.82
Plains	0	0	0	- 2.9	2.1	0.06	0.62	2.12
Mountain	0	0	0	- 2.8	0	0	0.47	0
Southwest	0	0	0	4.5	4.5	1.66	-0.71	6.18
Northwest	0	0	0	- 2.9	1.0	0.35	.49	1.44
United States	-	103	0.2	- 4.9	-0.1	0.03	0.93	-0.06

Appendix table 13. Estimated number and average size of dairy herds and proportion of farms and cows in each herd size. a/

		Northeast	Corn Belt	Lake States	Southeast	South Central	Plains	Mountain	Southwest	Northwest	United States
Total farms (thousands)		60,863	54,547	69,354	8,442	23,776	21,259	9,141	4,366	9,206	260,954
Average herd size (cows)		46	31	37	58	37	28	27	196	48	46
						Percent					
Herd size:											
1-29 cows	Farms	36.9	56.6	39.7	69.0	65.4	60.8	79.3	38.5	58.4	49.6
	Cows	(8.7)	(15.7)	(18.6)	(3.9)	(8.1)	(16.7)	(9.4)	(0.8)	(6.7)	(11.7)
30-99 cows	Farms	54.0	38.3	57.2	14.5	22.8	34.8	13.1	10.3	26.4	42.8
	Cows	(61.2)	(60.3)	(70.1)	(14.5)	(36.4)	(60.6)	(27.6)	(3.1)	(30.9)	(52.3)
100+ cows	Farms	9.0	5.1	3.1	16.5	11.8	4.4	7.6	51.3	15.2	7.6
	Cows	(30.2)	(24.0)	(11.3)	(81.6)	(55.5)	(22.7)	(63.0)	(96.1)	(62.4)	(36.0)

a/ Estimated for 1979 based on previous U.S. Census figures.

Appendix table 14. Estimated changes in gross sales per farm under CNI and six Wisconsin handlers' proposals, U.S. and regions.

	Herd Size	Herds 1979	CNI unblended				CNI blended				Six Wisconsin handlers'			
			Alone	Adj. Diff.	Increase support	Adj. diff. and increase support	Alone	Adj. Diff.	Increase support	Adj. diff. and increase support	Alone	Adj. diff.	Increase support	Adj. diff. and increase support
	cows	number	Dollars											
	1-29	22,461	-279	-1,023	-147	-422	-957	-1,023	-465	-422	-837	-1,023	-221	-349
NE	100+	5,478	-3,970	-14,555	-2,095	-6,009	-13,618	-14,555	-6,616	-6,009	-11,909	-14,555	-3,143	-4,962
	1-29	30,873	-91	-351	31	117	-351	-300	31	117	-341	-341	107	127
CB	100+	2,782	-1,553	-5,953	517	1,984	-5,953	-5,090	517	1,984	-5,780	-5,780	1,812	2,157
	1-29	27,534	-14	-284	216	628	-155	-284	743	628	-716	-689	284	324
LS	100+	2,150	-105	-2,207	1,682	4,888	-1,209	-2,207	5,781	4,888	-5,571	-5,361	2,207	2,523
	1-29	5,825	-241	-576	-201	-408	-569	-576	-428	-408	-522	-576	-362	-388
SE	100+	1,393	-21,089	-50,380	-17,574	-35,735	-49,794	-50,380	-37,492	-35,735	-45,693	-50,380	-31,634	-33,977
	1-29	15,550	-130	-432	-73	-188	-370	-432	-161	-188	-406	-432	-167	-161
SC	100+	2,806	-4,946	-16,419	-2,769	-7,122	-14,045	-16,419	6,132	-7,122	-15,430	-16,419	-6,330	-6,132
	1-29	12,925	-25	-142	52	142	-116	-142	155	142	-181	-181	129	142
PL	100+	935	-485	-2,669	970	2,669	-2,184	-2,669	2,912	2,669	-3,397	-3,397	2,427	2,669
	1-29	7,249	-39	-182	0	-13	-169	-182	-13	-13	-207	-207	-13	0
M	100+	695	-2,721	-12,696	0	-907	-11,789	-12,696	-906	-907	-14,510	-14,510	-906	0
	1-29	1,681	0	0	95	338	0	0	324	338	0	0	362	381
SW	100+	2,240	0	0	8,581	30,464	0	0	29,176	30,464	0	0	32,609	34,325
	1-29	5,376	-12	-187	87	187	-137	-187	187	187	-324	-324	87	100
NW	100+	1,399	-446	-6,689	3,122	6,689	-4,905	-6,689	6,689	6,689	-11,594	-11,594	3,122	3,567
	1-29	129,474	-144	-521	-13	5	-470	-521	3	5	-543	-595	20	-7
US	100+	19,578	-2,904	-10,456	-254	109	-9,439	-10,456	54	109	-10,909	-11,944	400	-145

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